"Allied Blenders and Distillers Limited Q4 FY25 Earnings Conference Call"

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MODERATOR:	**MR. ABHIJEET KUNDU - ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Allied Blenders and Distillers Limited Q4 FY '25 Results Conference Call 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijeet Kundu. Thank you, and over to you, sir.

Abhijeet Kundu: Yes, thanks, Avirat. It's our absolute pleasure to host the Management of Allied Blenders and Distillers Limited for the 4th Quarter and Full Year FY '25.

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

J. Mukund: Thank you, Abhijeet. Good evening, everyone, and thank you for joining our Q4 FY '25 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 and full-year performance before we open up for Q&A. Over to you, Alok.

Alok Gupta: Thank you, Mukund. Good afternoon, ladies and gentlemen. Thank you for joining us today for our Q4 and Full-Year Financial Results of 2025 Earning Call. And also my apologies for the 5-minute delay in starting this call.

FY '25 was our first year as a listed company, and I am pleased to share that it has been a transformational year for ABD marked by record performance, disciplined execution and strategic progress across key pillars of our growth agenda.

Despite a year of overall low growth, consumer love for premium product continued to fuel growth in the P&A segment. The sparkle of the festive spirit in Q3 also brought some cheer to the industry.

The policy environment had its ups and downs but was largely favorable to the business. And a largely stable input cost environment helped the industry to deliver better gross margins. ABD was well poised to capture these trends with our broad portfolio, pan-India manufacturing network, strong national distribution footprint to deliver both value and volume growth with significant margin expansion.

Now let me share key highlights of FY ‘25. Our consolidated income from operation was at Rs. 3,541 crores, up 6.2% on a year-to-year basis.

We reported the highest-ever EBITDA of Rs. 451 crore versus Rs. 248 crores in FY ‘24, a growth of 81.7%. EBITDA margin therefore improved to 12.7% in FY ‘25 versus 7.5% in FY ‘24.

We delivered the highest ever PAT of Rs. 195 crore versus Rs. 2 crore in FY ‘24.

On a standalone basis, revenue stood at Rs. 3,541 crores, EBITDA at Rs. 453 crores and PAT rose to Rs. 200 crores from Rs. 7 crores in FY ‘24.

These gains were made by multiple factors. Strong volume growth of 13% in P&A segment, sharp focus on driving profitable sales through our profit governance model, cost reduction through a rate reset, packaging efficiencies and a disciplined control over operating expenses. We also enhanced our A&P investment behind our P&A portfolio.

In line with our dividend policy, the Board has recommended a final dividend of Rs. 3.6 per share. FY ‘25 was a year of transformation at ABD.

We had four broad themes on which we worked. First, premiumization. Align our portfolio with the consumption trends to gain market share. We have also built our Super-Premium to Luxury portfolio in the high growth, high margin segment. Backward integration to ensure both supply security and margin growth. Margin expansion, deliver industry parity gross margins and expand our EBITDA margins. And our fourth theme, which is around governance culture, strengthening of our internal processes including digitization in identified areas.

A special mention for a special brand ICONiQ White, which grew by 151%, crossed the 5 million case mark and recorded a sale of 5.7 million cases and was also shipped to many countries initiating its growth journey in the international market.

Moving to Q4 FY ‘25. In Q4 FY ’25:

We delivered our strongest ever quarterly performance. Our consolidated income from operation was Rs. 935 crore, up 21.4% year-on-year.

We reported the highest ever EBITDA of Rs. 150 crores, which was more than double of Q4 FY ‘24 EBITDA of Rs. 62 crores. EBITDA margin improved to 16.1% in Q4 FY ‘25 versus 8.1% in FY ‘24.

We delivered the highest ever quarterly PAT of Rs. 79 crores versus a net loss of Rs. 2 crores in Q4 FY '24.

Our top-line growth was led by P&A segment which grew volumes by 32.7% and was well supported by our Mass Premium category growth of 13.3% versus Q4 in FY '24. A stable policy environment both in Andhra Pradesh and in Delhi helped us regain market share and also reflects in our growth.

COGS benefit continued on back of rate reset and packaging efficiency. The grain price also softened back of policy support from FCI. This resulted in our gross margin expanding by 436 basis points to 43.4% as compared to 39% in Q4 FY '24.

Our significant EBITDA growth is driven by sharp improvement in absolute gross margins and only a marginal increase in our operating cost. This surplus has flown through to EBITDA.

The quarter also includes a one-time reversal of provision of Rs. 11 crores. Excluding this, EBITDA from operations stood at Rs. 139 crore with a margin of 15.3%.

Moving to interest cost:

Our interest cost in Q4 FY '25 was at Rs. 28 crore, broadly in line with Q3 interest cost of Rs. 27 crore. However, this interest cost is significantly lower as compared to Rs. 45 crore in Q4 FY '24.

Our net debt as on 31st March 2025 is at Rs. 766 crores and is broadly in line with Rs. 763 crore as on 31st December 2024. This clearly indicates that in Q4 FY '25 our cash flow from operation not just supported our working capital requirement in terms of growth but also our investment in CAPEX program and the acquisition of the Fullarton brands.

Our balance sheet is significantly stronger today. Net debt-to-equity improved to 0.5x as on 31st March 2025 from 1.8x as on 31st March 2024. And net debt-to-EBITDA improved to 1.7x as on 31st March 2025 from 3x as on 31st March 2024, creating room for future growth investments.

FY '25 was also the year of foundational investments. We made substantial progress on our CAPEX program of Rs. 525 crore focused on backward integration. Our newly acquired ENA distillery in Aurangabad is running at 100% capacity and the produce is being used for captive use. Our project on the expansion of 61 million liters over the next three years is on track. Currently it is under regulatory approval process.

The PET bottle facility in Telangana designed to meet up to 75% of our needs is expected to be commissioned in Q2 FY '26 and be EBITDA accretive thereafter. The integrated malt distillery at Telangana with 4-million-liter capacity is expected to be operational in Q4 FY '26 as is on track. These initiatives are margin accretive and are expected to deliver approximately 300 basis point EBITDA margin improvement over the medium term.

We continue to strengthen our premiumization strategy with the introduction of Arthaus in the Luxury whisky segment and the acquisition of Fullarton brand Woodburn, Pumori and also Rock Paper Rum.

Our strategic distribution agreement with Roust Corporation to introduce Russian Standard vodka in India is a significant step towards expanding our premium and Super-Premium vodka offering.

Our global footprint now extends to 23 countries up from 14 countries last year reflecting the increasing acceptance of our brands beyond India.

As we look to FY '26, our focus will be on executing the investments we have made, scaling our premium portfolio, improving distribution reach, especially in premium on-premise and maintaining our margin discipline. The macro environment remains supportive with stable input cost, policy clarity in major states and hopefully demand resurgence across category on back of high disposable income and other macroeconomic and policy factors.

UK FDA expected to be margin accretive as ABD is one of the largest importers of bulk scotch. This agreement will also benefit our Super-Premium and Luxury portfolio by making it more accessible to the consumers.

To support our long-term strategic roadmap, we are placing an enabling resolution to raise funds with multiple options such as equity shares, convertible bonds, debentures and others to take advantage of opportunities as and when they come along. With our credit rating upgraded to A- with a positive outlook, we have the flexibility to raise capital efficiently should the opportunity arise.

In summary, FY '25 was a transformative year for ABD. We delivered record results, improved profitability, strengthened our balance sheet and laid the groundwork for future ready growth. As we move into FY '26, we remain focused on scaling our premium portfolio, maintaining our margin focus on Mass Premium, realizing the benefit of our CAPEX program, continue the cost focus, re-rate for lower interest cost and driving sustainable value creation.

I thank you for your continued trust and support and for your time and will now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chetan from Systematix. Please go ahead.

Chetan: Hi, thank you for the opportunity. Firstly, congratulations on a great set of numbers. I have two questions. The first question is on Andhra Pradesh. How has the recent policy changes in AP specifically influenced the desired state, brand or say SKU mix strategy for ABDL? And are there specific segments or brands within our portfolio that are disproportionately benefiting from the new market dynamics in the state?

Alok Gupta: Thank you for your question. AP policy we see as largely favorable to ABD. On back of the policy, last financial year, we saw our ARR improve from 1.7 million to about 3 million. And we see further opportunity which I will share with you.

On specific segments, I think there are two price points in the state of Andhra Pradesh that are now growing. The one that is really relevant for us is the price point where ICONiQ operates. This segment has captured the imagination of consumers in the state of Andhra Pradesh and is roughly about 5 lakh cases a month.

We were able to secure approval for ICONiQ in the month of November. We have since rolled out the brand and the brand month-on-month is showing tremendous growth. And we are hopeful that we will get to an ARR of a million cases in a short period of time. So, that is a very, very large opportunity for us in the state of Andhra where ICONiQ will continue to expand its sales.

We have seen at the lower price point growth of Brandy as a flavor. In the tender that is expected to be approved shortly, we have expanded our portfolio where we will be able to operate in this reasonably profitable large volume segment.

I hope that answers your question. Happy to take a follow up.

Chetan: Yes, that answers my question. Thank you. And the second question is on the Luxury portfolio. So, we have built a portfolio of Luxury brands to ZOYA, Arthaus, the Russian Standard partnership, acquisitions like Woodburn, Rock Paper Rum. Beyond these existing or recently added brands, what is the long-term vision and specific plan for further expansion in the Luxury segment, potentially, say, through new launches, partnerships or acquisitions? And how do you see the overall Luxury portfolio evolving in terms of, say, size and brand mix over the next three to four years?

Alok Gupta: All right. Thank you. You would recall if you were on the call earlier, we have spoken about an approach which we called as the right to win approach and not just right to play. We had identified in the Super-Premium and Luxury segment about eight such opportunities of which five are already up and running. Our framework was quite simple. We were looking at segments that were growing faster with targeted gross margins and fewer competitors. So, that's been our framework.

So the portfolio that you see today, that is already out in the market, will meet this test that these are the price point and the flavors at which we are seeing larger growth, which is a indicative of the fact that more and more consumers are gravitating to those flavors at these price points. We have already rolled out five brands. We will also roll out three additional brands in FY '26. That by and large completes our portfolio that we want to take to the market.

The segment, the industry is about 400 odd million cases. The Super-Premium to Luxury segment is roughly 3%, but it accounts for nearly 20% of industry profit. And that's why this high margin; high growth segment is of interest to us. In our assessment, the segment will more the double over the near or medium term. And we are hopeful to get a high single-digit market share from this segment which will impact, which will give us disproportionate growth both in terms of revenue growth and also margin expansion.

Moderator: The next question is from the line of Kaustubh Pawaskar from ICICI Securities. Please go ahead.

Kaustubh Pawaskar: Yes, good evening sir. Thanks for giving me the opportunity. My question is again on Andhra Pradesh. So, in this quarter of the 20% volume growth or 32% volume growth what we have achieved in P&A, what would be the growth contribution from Andhra Pradesh market itself?

Alok Gupta: If you give me a minute, I will have to get the numbers out for a very specific query. But in the meantime, I can confirm to you that the P&A growth for us has been across India, pan-India. But give us a bit of time. We will have somebody pull out the number in parallel.

Kaustubh Pawaskar: Right, sir. And sir, my second question is on margins. So, second half, we have seen EBITDA margins recovering substantially. We have seen strong improvement in the gross margins. Our EBITDA margin sequentially has also improved. You know, as a company, we are targeting around 15% EBITDA margins by FY '28. But the way the mix is improving, and we are also focusing on various backward integration strategies, considering that, do you expect this 15% EBITDA margin by FY '28 to, you know, we can achieve it maybe a little bit earlier than what we are anticipating?

Alok Gupta: You know, you are aware that there are multiple macroeconomic factors which could impact the margins. Of course, for FY '26, we expect a neutral commodity cycle. Therefore, we believe that the gross margins will be broadly in line with what we have planned. And therefore, we should see expansion in EBITDA margin.

I think clearly the plan as of now is to get to industry parity EBITDA of 15% over the next two years. What we have not baked into this EBITDA is the upside that we will get on back of FTA. We have not baked into this EBITDA the upside that we could potentially get from our Luxury portfolio. And what we have not baked into this is the potential upside that we will get from our P&A portfolio where we have said that from a 42% salience, we will go to 50% salience.

So, the focus is quite clear. Get to the 15% EBITDA margin which is an industry parity and also expand the margin on back of these three-growth track that I have just spoken about. But we have not quantified it for now.

Kaustubh Pawaskar: And what would be the constitution of the bulk alcohol imports for us of the overall raw material cost?

Alok Gupta: So, we are the largest importer of bulk scotch in India as an Indian company. We import scotch worth roughly about Rs. 100 crores with 150% duty means about Rs. 150 crores of duty, and therefore if the duty was to come to half and then progressively reduce. It will reduce our COGS, expand our gross margins and we will see this entire saving to flow through to our EBITDA.

Kaustubh Pawaskar: And one last one, if I can. The capacity expansion which we are planning to do at Punjab, it is additional to our overall CAPEX plan of around Rs. 525 crores, right?

Alok Gupta: That is right. The capacity expansion in Punjab is a bottling expansion. The expansion that we have already announced is of ENA, which is the raw material that goes into our products.

Moderator: The next question is from the line of Aman Baheti from Incred Capital. Please go ahead.

Aman Baheti: Hi, thank you for the opportunity and congratulations to the ABDL team for a great set of execution. Sir, through our channel checks, we have found out that, I mean, you have been expanding in the Western Maharashtra region quite aggressively in terms of your ZOYA gin and Arthaus, and it has been doing really well in this region. So, going forward, are we looking at expanding in our existing regions or other regions? What is our strategy?

Alok Gupta: So, all the five brands that are in the Super-Premium and Luxury segment, the game plan is that by end of Quarter 1, definitely within Quarter 2, we expand and roll out into the top market, which accounts for almost 80% of the segment. So, we will see a fairly rapid distribution expansion of the Super-Premium and Luxury portfolio.

Aman Baheti: So, I mean, the contribution like now it's 50-50, P&A and Mass Premium. So, we can see that going to 60-40 maybe in FY '26.

Alok Gupta: So, the 50% salience is in value terms. The volume salience is about 40%, right? Your question is, will it go to 60-40? I see over the next two years that certainly is a possibility.

Aman Baheti: And one question on our marketing spends. So, can you give me an approximate figure in terms of top line, what is our marketing spend?

Alok Gupta: So, our A&P as a percentage of NSV in the P&A segment is at about 6%, which we plan to expand over the next two years, hopefully between 7% to 7.5%.

Aman Baheti: 7 to 7.5. Okay, got it. And sir, are we looking at our own tequila brand anytime soon? Because obviously we don't have a tequila brand right now.

Alok Gupta: It's certainly a flavor that is of interest to us. We believe that it's a category that we need to learn a little better. So, we are in the process of getting a better understanding of the category. But we definitely see ourselves participating in time to come.

Aman Baheti: And a question on our blended malt scotch. So, we are importing it for Arthaus, right, currently?

Alok Gupta: That is correct.

Aman Baheti: And I mean, is there any plan of our own single malt whisky, and that would be 100% backward integrated or what's the plan on that?

Alok Gupta: So, as you know, we are building India's first single malt distillery in the state of Telangana, where our current distillery is. This distillery will be operative in Q4 FY '26. And that will allow us to participate in the Indian single malt market by year 2030. So, we are quite excited about the way we are building the distillery and the product development ideas that we have. So, by 2030 we should have our own Indian single malt from our own unit.

Aman Baheti: And sir, this single malt contains how many grains? I mean, it's barley with or other grains.

Alok Gupta: Single malt is only made from barley.

Aman Baheti: So, this is barley, right? 100%.

Alok Gupta: Yes, no other grain is used for single malt.

Moderator: The next question is from the line of Sanjay Manyal from Dam Capital. Please go ahead.

Sanjay Manyal: Hi, sir. Congratulations on the good set of numbers. Just to understand about ICONiQ White, you know, this brand has grown tremendously in the last few years and such a short span of time from the time of launch. So, what exactly has been the reason for such a huge success and which states have been contributing to this growth?

Alok Gupta: The brand has been growing across all markets. So, any large market, there is a market of UP, market of Haryana, Telangana. We briefly spoke about Andhra on the earlier question that I had. So, across all markets, the brand continues to grow. Even in states like Orissa, we are seeing significant growth on the brand.

So, what has happened over a period of time that the brands that are operating in this segment have been there for more than 25 years, and as part of our consumer inciting, we got two incredible insights about the fact that the slightly younger consumer, they have complete trust in the existing brand, but they were looking at a brand that can talk in their own language, in their own code. And if you see right from packaging design to way the A&P has been designed on this brand, it is keeping in mind the younger consumer.

So, what has happened in a very large consumer base of the Prestige whisky is it has captured the imagination of the younger consumer. Also, we have positioned this brand in the market in between the Imperial Blue and the Royal Stag price point. So, it's able to get consumers both from the deluxe segment and the semi-premium segment. And a little bit of research tells us that irrespective of the consumer it gets from Royal Stag or from Imperial Blue, which is the deluxe or the semi-premium segment, it is a younger consumer who are adopting this brand.

So, by and large, our insight was that there is a large opportunity with the younger consumer. They are looking at a brand that is designed to meet their expectations, their sensibility, and ICONiQ does that job. We are also adding a significant number of new consumers to the category. And since this brand is being favored by younger consumer, it also gets a disproportionate share of those who have decided to come into the category.

So, that's really, in our view, the success of ICONiQ is talking to segmenting the consumer base and targeting a very, very specific set of consumers.

Sanjay Manyal: That's great. Just one more question on the FTA part. So, is it possible for you to quantify the number, what kind of a benefit you will get because of the reduction in the taxes on bulk scotch? And what I understand broadly that because of the BIO brands also getting cheaper, there will be increased competition from these foreign brands. So, which brand in this price point basically would be probably at a Rs. 1,500 to a Rs. 3,000 or Rs. 4,000 sort of category, which would be where you will be competing with these foreign brands?

Alok Gupta: So, once the FTA is implemented on an annualized basis, we expect duty saving of anything between Rs. 75 crores to Rs. 80 crores. That is the quantum of duty that will come down, which could translate to between 175 basis to 200 basis point of margin expansion. So, that's the response to your first question.

On the bottle product, for us, we have just about built the portfolio. Our route-to-market and our go-to-market is on the basis that we are new entrants in the segment. What part of this benefit is passed to the consumer and what part of this benefit is retained by companies as margin expansion is yet to be seen. We think it will be a combination of both. So, once implemented, we really get to see to what extent do the MRPs come down. But certainly the MRPs will come down, leading to better accessibility.

If you look at our portfolio, our Arthaus blended malt scotch will benefit from reduction in the duty and will make us more competitive because we are a BII. Therefore, for us, it is quite favorable for the portfolio that we currently have. However, we will get to know a more certain position once it's implemented and the market leaders do take some sort of a call in terms of how much to pass to the customer and how much to retain.

Sanjay Manyal: That's great. Just one last, if I can squeeze in, basically on the ENA sort of inflation, what I have seen over the last 6-8 months, what I broadly understand is that ENA prices have been stable. What exactly is your outlook on the future? Suppose if there is an ethanol price increase further in the new season, which will probably start in September or October, do you think that inflation still sort of can come back from the next year onwards? Or what is your basically view on the glass prices also, if you can elaborate a bit?

Alok Gupta: Ethanol can be made from maize, broken rice and full rice whereas portable ENA is made only from broken rice. So, it really depends on the FCI policy. 19th January they had announced access to full rice to the ethanol industry, thereby offering a better margin on ethanol produced out of full rice. We believe that the policy has worked well to meet the ethanol objective. It has worked well for ethanol manufacturers. Therefore, we do expect this policy to be rolled forward. And if that was to happen, we expect that the commodity prices will remain fairly stable.

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

Kunal Shah: Hi, thank you for the opportunity and congratulations on a good set of numbers. My question is on the balance sheet bit. If you see the receivables has grown quite a bit to almost Rs. 1,750 crores. My question is how much of this is the outstanding receivable in Telangana and where do you see this number stabilizing in, let's say, the next 12 months or so?

Alok Gupta: So, Telangana overdues for us is roughly about Rs. 400 odd crores. One bit of good news is that from October, so the entire expansion of receivable in Telangana happened till September because the payments were fairly choppy, they were unpredictable. But from October onwards, Telangana has been paying the entire industry including us on time for the monthly billings. So, from October we have not seen any increase in the overdue amount from Telangana. So, that is a bit of positive news. From the month of March onwards, we have also started to receive partial payment towards the overdue, which is also a step in the right direction.

So, where we are today, do we have a clear roadmap in terms of by when the overdues will get paid? I wish I had a crystal ball through which I could advise you. But the fact is that in March and April, both the months, monthly billing plus a part of overdue is being paid by Telangana and we believe from whatever we understand that this will only get better.

Kunal Shah: And any other specific reason apart from Telangana for this increase in receivables that we should be aware of?

Alok Gupta: No, I think broadly the increase is about Rs. 500 crores of which about Rs. 300 crores is Telangana. There were some other government-controlled market where year-end receivable has gone up, but those are now getting paid in April and May. In addition, our sales volume has gone up. So, some bit of increase in receivables would happen on a natural basis. But I do not think there is any other number that we need to be worried about.

Kunal Shah: Understood. Thank you for that. The second question is on finance cost. So, if I see, you know, in 2024 and even in prior year you used to have this large Rs. 30 crores, Rs. 40 crores of interest cost on delay in payment of statutory dues. Can you let us know what's the number for this year and what's that is related to and how is that changing?

Alok Gupta: So, immediately after the IPO, we paid all the statutory overdues which was around 7th or 8th of July last year. Since then, we do not have any statutory over dues in our books. Everything is paid on time. Therefore, there is no interest cost associated to delay of statutory dues.

Kunal Shah: Thank you for that. And finally, any qualitative comment you would want to make on how all the new brands which have launched on the Luxury and semi-premium side in the last one year or so are doing? I know it's too early for many of them, but any qualitative direction or some guidance which you can give?

Alok Gupta: I think two things I can say at this point of time. One is each of the product has a very unique blend and a proposition. And in an experience-driven consumption economy, I think consumers would like to try out newer experiences. Just as an example, with Zoya we have launched our Watermelon Gin and we have launched our Espresso Coffee Gin. This is basis a key consumer insight.

The two big trends are cocktails and sipping. So, if you are at home, you want to enjoy a cocktail, you take the Watermelon Gin, put in a nice gin goblet, add a bit of few cherries to it on crushed ice and your cocktail is ready. And the Espresso Gin is all about taking a shaker which you can buy off Amazon, put in the Zoya Espresso Gin, shake it up and put in a martini glass and you can sip it.

So, one thing that I think we are extremely excited about is that the blends are unique, the extensions are unique, and consumers will definitely give it a shot. Second is on the packaging, be it Zoya, be it Arthaus, I think, which are our own brands, I think we have received not just awards, but we have also seen qualitative feedback from the consumer. They just love the design direction.

On the newer investments that we made on brands like Woodburn, they are proven brands in the startup ecosystem, and they will benefit tremendously from our distribution and manufacturing footprint. So, those would be my two qualitative comments on brands that we build ourselves and the brands in which we have invested.

Kunal Shah: Understood. And the last one is on this JV which you have created. Any sense on when you will start rolling out products and brands from that platform?

Alok Gupta: All Super-Premium and Luxury brands, let's just take a price point of Rs. 2,000 and above. So, Zoya, Woodburn, Russian Standard, Arthaus, Pumori, all these brands will be marketed by ABD Maestro. We now have a 50-people team in place to manage the brand, build new experience in terms of mixology and cocktail, to focus on key accounts and premium on premise. And from 1st April the team is up and running. And hopefully we will have much more to talk two quarters down the line.

Kunal Shah: Understood. That's great to hear. Thank you so much for this.

Moderator: The next question is from the line of Chintan Shah from JM Financial Office. Please go ahead.

Chintan Shah: Hi, so I have two questions. So, one is on growth. So, can you shed more light on growth specifically from next one year perspective as well as over next three years? And probably if you can talk a bit from the volume perspective as well as from value perspective.

The reason I ask this is because if you look from a volume perspective, right now we have a brand ICONiQ which is largely driving volume growth. And beyond that, in that Prestige segment, I don't see any other brand which has been scaling so fast.

And secondly, all the premium segment products that were launched, it's all been received and I believe from a volume perspective, on our base, they won't be meaningful at least from the next 2-3 year perspective. So, putting that in context, if you can throw some light on volume and value growth for FY '26 and over the next 3 years. That's the first question.

Alok Gupta: Okay, thank you. I would break our portfolio into three specific segments or price points. Mass Premium, where we have our flagship brand Officer's Choice, our focus will continue to maintain its gross margin of 40% plus. We all know that the A&P spend on this brand is extremely low. So, it generates a lot of cash for us. Therefore, our guidance or the way we are looking at the growth is high single digit but maintain our focus on the gross margin.

In the P&A segment, with Officer's Choice Blue, ICONiQ, Sterling B7, we are looking at driving double-digit growth. The combination of these two will give us double-digit volume growth, but about mid-double-digit value growth.

One important point if I can point out something that we spoke about through Quarter 2 and Quarter 3 is our margin governance model. One exercise that we carried out last financial year was really to look at state-brand combination and weed out state-brand combinations where we believe that the margins were below the targeted threshold.

Therefore, we by design took, let us say, some volume cut in state-brand combination where the gross margins were not in line with the threshold. So, that reset was required one time, which has been done last year. Therefore, a bit of the sluggishness that you are talking about is on account of not just the market condition, but also the fact that we took some voluntary cut on volume where money was not being made.

On the Super-Premium to Luxury segment, as you have rightly said, these are early days. What we will see is, since the volume base is very small, its immaterial to talk about growth because the growth will be 1,000%. But the impact on the value growth, we will see by the end of this financial year. So, if I have to sum up the guidance on mass premium, Prestige & Above, and Super-Premium to Luxury segment, a double-digit volume growth with a mid-double-digit to higher value growth, that's how we are looking at FY '26.

Chintan Shah: And over three years, basically it would be fair to say that the value growth would be much higher than the volume growth that currently we are looking at in FY '26. Is that fair understanding?

Alok Gupta: That's a fair statement to make.

Chintan Shah: And just one more follow-up on this. So, in that case, are we looking at any more addition in the Prestige segment? You know, something like ICONiQ which can actually drive up the volumes or the focus would be clearly to do more additions on the Super-Premium to Luxury side.

Alok Gupta: We have identified two opportunities. One of them is the semi-premium brandy. I am very happy to share with you that we have now launched Golden Mist in the state of Karnataka, which will then be followed in the other critical southern market. It is a high-growth, high-margin flavor within the deluxe segment and that is something that we will stay focused on. And then in time to come, we will also look at participating in the semi-premium vodka segment. But these two launches in the semi-premium segment that we are focused on.

In addition, we have a beautiful brand called Srishti. It's an Indian brand with an Indian soul. The blend is made with something called Indian saffron. We know for sure that Indian consumers are now happy consuming, serving and gifting Indian brand. We are quite happy with the way the product has shaped up. So, these are the three brands that you will see in action in FY '26.

Chintan Shah: Understood. Sorry, just one more follow-up on this. So, ICONiQ, basically, any sense if you can give of what could be the potential for this brand? I mean, where could it reach? I mean, we are at 5.7 million right now. So, what potential does it hold?

Alok Gupta: I have several responses. I am trying to figure out which one to give you. From the way I see the brand, it has the ability to be a market leader. It is just a matter of how fast and how soon.

Chintan Shah: Understood. And just one last question that is from a balance sheet perspective. So, while you clearly explained on the receivable side, so there is a sharp increase on the inventory side as well. So, why would that be? Could you explain that? And lastly, if we look at the net debt, so we started at 760, then we raised the equity money, paid off the debt, and we are again back to Rs. 800 crores for reasons that you already explained. But going ahead over the next 12 months, how do we see the trajectory? Do we expect all this to normalize and go back to a debt-free status or we will continue to have a significant portion of debt on our balance sheets?

Alok Gupta: So, on the net debt, I think an important point to note is that our net debt, FY '25 and FY '24 is pretty much in the same range. The important point to note is that last year the net debt of Rs. 749 crores was all working capital, right? Whereas the net debt as of FY '25 of Rs. 766 crores has a portion of working capital, but it also has the investment that we have made into our CAPEX program and acquisition.

So, I think that is an important number to keep in back of the mind. So, of Rs. 766 crores net debt, about Rs. 182 crores is what we have invested towards CAPEX and acquisition. So, broadly if you look at the working capital that is invested in the business is about Rs. 580 crores versus the Rs. 750 crores in previous year.

It is in the presentation. It is Slide #12. If you get time, do take a look at it. It will give you a full waterfall in terms of how the IPO proceeds were used, what has been the operating cash flow and how it has been deployed. So, the investment into working capital has actually come down.

Chintan Shah: But just a clarification, what explains the increase in inventory?

Alok Gupta: The increase in inventory is largely in a few southern depots and one market of north, and we will see this getting corrected within Quarter 1.

Chintan Shah: And just one more follow up and just one clarification. By the end of this year, what kind of net debt position should we look at? That's the last question from my side.

Alok Gupta: Sorry, one correction that I wanted to make. The inventory I think you are referring to is our packaging and raw material inventory. This increase is largely towards the scotch that we are buying from a supply security point of view. And this is by design. Largely we have a rate advantage and quantity that is available. So, that increase is largely related to a strategic build-up on the scotch inventory that we have in mind.

If you have got a new question, tell me.

Chintan Shah: No, just the net debt position as of what we were expecting by the end of FY '26. And would the fundraise would be largely to take care of that? Is that a fair understanding?

Alok Gupta: The fundraise is an enabling resolution, and that's an important point to note. It's an enabling resolution. We feel that there could be opportunities that come our way and therefore we should be ready in terms of the necessary permission. And we will raise the fund as and when an exciting opportunity comes along.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, I have two questions and both on the margin side. So, first question is between the two quarters, Quarter 3 and Quarter 4. If you see the margin movement, it is largely from the other expenses line, despite the fact that the Q4 side of the business is lower. Is it to do with a peculiar way where how costs are booked in your company? Because these are the first quarterly result we are seeing the last three and four quarters. So, is it to do with a quarterly phenomenon and the way the costs are booked?

Alok Gupta: No, it is largely due to the fact that Q3 is a festive year, and significant A&P investments happen in Q3 and they come down in Q4. The significant part of the reduction that you see is related to A&P only.

Pritesh Chheda: So, it's the way these costs are booked. Okay. My second question, yes, go ahead, sir. No, you go ahead, sir. You finish your answer.

Alok Gupta: No, I was just saying that that's largely in line with the festive season and the non-festive season. I was just doing a follow-up on that.

Pritesh Chheda: No problem. My second question is, this is on a margin bridge. So, earlier in your calls, you said that 15% is a margin that we are looking at and that included two expansion items. One is the mix change because of the Prestige & Above rising in premiums, and second is the ENA integration. And over and above that, there is a third change which is coming as a scotch benefit. So, is it fair to assume that up to 15% margin is what earlier two assumptions were there? And the third assumption which gets added and expands the margin is scotch benefit provided it is retained and not passed on. If it is passed on, then we restrict the margin to about 15% as of now as a margin bridge.

Alok Gupta: Right. I will try and put this in perspective. Our FY '25 EBITDA margin is north of 12%. The three CAPEX programs that are currently under build are ENA, PET and MALT. ENA partial capacity is running 100%. Additional capacity is under approval. PET plant will be up and running in Q2 of FY '26 and the malt unit will be running in Q4 of FY '26. We expect 100% benefit of this to come by March' 27, which is roughly 300 basis point coming from these three programs. So, on back of exit of 12% EBITDA margin in FY '25 and 300 basis point margin that will come on back of this CAPEX program is where we are projecting a 15% EBITDA.

What is not factored into this 15% EBITDA are three things which you have covered. One, it does not factor the gain on bulk scotch due to duty reduction. What it does not factor is our improving P&A salience. And what it does not factor is our Super-Premium to Luxury portfolio which is at early stage. Does that give you a bridge, how do we get to 15 and not part of 15?

Pritesh Chheda: Now on the ENA, at the time of IPO, we had this 100% own ENA program. So, that goes through its implementation in this time frame with the CAPEX or what happens?

Alok Gupta: So, with the CAPEX that we have announced, we should get to about 66% captive ENA, which is one distillery in the state of Telangana and the other distillery in the state of Maharashtra. We need to build another 60 million liters capacity for which we have identified the state where we want to go and the work is on.

Pritesh Chheda: So, that's how you mentioned 60 million liters is awaiting EC and 60 million liters is under implementation.

Alok Gupta: Exactly

Moderator: The next question is from the line of Harsh Shah from Bandhan AMC. Please go ahead.

Harsh Shah: Hi sir, good evening. Thanks for taking my questions. I have two questions. The first one is, if you were to look at the EBITDA per case and directionally, basically I wanted to understand how is ICONiQ EBITDA per case versus the company average?

Alok Gupta: So, ICONiQ is still in a growth phase, both in terms of volumes and in terms of the investments that are going behind the brand. Therefore, any guidance on what our current brand EBITDA is will be a little out of context. So, if I can understand your question better, maybe I can give you a more sharper response.

Harsh Shah: So, basically, let's say that, okay, I understand that it's in the investment phase. So, at a let's say, gross contribution level, gross profit level, what would be the GP per case, let's say, of directionally of ICONiQ versus the company average?

Alok Gupta: So ICONiQ versus company average, ICONiQ would be about 3% lower than the company average at the point of time. And just to sort of give you a quick peek into how this will correct. So, first, as you would recall, we have launched this brand with the mono carton. However, within 12 months, after the 12 months period is over, which is part of our seeding program, we removed mono carton.

So, as some of the newer markets like Andhra and Delhi and many other markets got added in the last financial year, in this financial year and thereafter, the mono cartons will be removed. That will improve the gross margin because that packaging cost will go away.

Harsh Shah: How much would that be if we quantified as, let's say the 3% lower?

Alok Gupta: What I am doing is I am giving you three things that will happen that should bridge the gap and get it to company average. So, first is going to be mono carton removal in a progressive manner. So, by end of FY '27 we are through with the mono carton removal. So, thereafter all sales of ICONiQ will happen without mono carton.

The second is market bottle utilization. The market bottle utilization network sort of matures both in terms of volume, which now ICONiQ has achieved at 5.7 million cases. And secondly, it is in terms of developing the supply chain network because these bottles sort of flow from a micro-consumption point and then flow into a facility. So, the market bottle utilization for ICONiQ would also correct over the next, let's say within this year, we should be able to get it to the company average, right? So, these two combinations primarily, one is market bottle utilization, and second is the mono carton and third is optimization of some fixed overhead, we will get it in line with the company average.

Harsh Shah: So, what, can you double click on the market bottle utilization and what exactly do you mean by that?

Alok Gupta: Essentially means, like in the beer industry, you know, a new bottle is - Yes, so similarly.

Harsh Shah: Returns. Its bottle returns basically.

Alok Gupta: Right, return bottles.

Harsh Shah: That is basically slightly lower compared to the company average. And as basically you get it up, probably you will get that to company average.

Alok Gupta: Yes, you got it. And these three things will get the gross margin in line with the other brands.

Harsh Shah: The third thing you mentioned, I am sorry, I just, the third thing you mentioned was on which front?

Alok Gupta: Some fixed cost optimization.

Harsh Shah: Optimization, okay. And despite that, your EBITDA per case to come back to the company average would take some time as the investment basically would continue. That is the right understanding?

Alok Gupta: Yes, with these three things, gross margins will be in line with the other brands. The A&P investment to NSV is about 6%. So, the brand EBITDA will be in line.

Harsh Shah: And you spoke about the state brand mix, working on the state brand mix and cutting down on the states or brands where it was a bit detrimental, but if you could call out the top three state brand mix for us, what would that be?

Alok Gupta: The top three state brand mix will be the state of Telangana, the state of Andhra Pradesh, the state of UP. These will be the three.

Harsh Shah: Brands?

Alok Gupta: Sorry.

Harsh Shah: Brands, I mean state and brand, right? So, Telangana is Officer's Choice or?

Alok Gupta: The main brand is Officer's Choice. Therefore, it's a market leading brand in the state of Telangana, in the state of Andhra Pradesh, also in UP. Second brand, which is becoming a big brand. Andhra, we started selling this brand only in the month of December, making month-on-month progress, should hit a million case ARR over the next two or three months. Telangana already doing extremely well and the same is the case with UP.

Harsh Shah: And just last bookkeeping question, what would be this quarter's number, let's say volume and value growth ex of Andhra Pradesh?

Alok Gupta: Sorry, which quarter are you talking about? Last quarter?

Harsh Shah: Yes, 4th quarter's number ex of Andhra Pradesh, what would that be?

Alok Gupta: For Andhra Pradesh?

Harsh Shah: I am saying that the company level growth is 20%-21% value and volume, right, at the company level. I am saying if we were to exclude Andhra Pradesh, what would have been our growth in fourth quarter?

Alok Gupta: Give us a minute to calculate that specific number for you.

Harsh Shah: And until then, I mean, could you kind of talk about your CAPEX outlay for FY '26 and FY '27?

Alok Gupta: So, the specific response to your question is, overall growth is 21% and without Andhra the growth would be between 15% and 16%.

Harsh Shah: And sir, last bit on the CAPEX outlay for FY '26 and FY '27.

Alok Gupta: CAPEX outlay?

Harsh Shah: Yes.

Alok Gupta: So, the Rs. 527 crores of CAPEX that we have announced, roughly 25% has already been invested in FY '25. 60% of this will be invested in FY '26 and the balance 15% in FY '27.

Moderator: The next question is from the line of Asha from Boring AMC. Please go ahead.

Asha: Sir, my question was related to QIP proceeds of Rs. 1,000 crore. How are we going to do that?

Alok Gupta: So, ma'am, this is an enabling resolution. There is no plan to raise this money. Idea is to be future ready. If an exciting opportunity was to come along, we should be able to exercise this option. So, as of now, it is an enabling resolution.

Asha: Sir, may I know, we have an IT assessment order. What is that pertaining to and what is our stance on it?

Alok Gupta: We have contested the IT order. We have been able to get a stay against that order, and we are confident that we should be able to have a favorable outcome.

Asha: And sir, could you please let us know if current Q4 PAT is sustainable going forward?

Alok Gupta: I think Q4 has one exceptional item of Rs. 11 crores at an EBITDA level, which is a write back. And like I was explaining on the earlier question that Q4 also has a lower A&P spend. So, Q4 should not be seen as a reference point for sort of forward outlook on PAT.

Moderator: The next question is from the line of Akhilesh Bhatter from IKIGAI Asset Management. Please go ahead.

Akhilesh Bhatter: Thank you for the opportunity. I want to understand the time to market it takes for you to launch a brand and the life cycle behind that and for you to receive feedback from the market if the brand is actually working and for you to actually produce more on that brand. So, can you please explain me the life cycle behind that?

Alok Gupta: That's an interesting question. Broadly, four of five critical phases. One is really a desktop stage in terms of which segment, which price point, what margin, what's the right to win, what's the sort of concept that will work with the consumer. It could take anything between six months to a year. It's backed by research. It's backed by first-hand inciting. It's backed by getting a better understanding of what we get as a right to win.

The second phase really is packaging concept development where it could take maybe up to another six months. Commercial production could take another three months. So, pretty much it could be between 18 months plus minus from an idea to a physical form in which the product is available.

The third phase really is actual product testing. In parallel, of course, we are doing the blend development. So, the third phase is really product testing, both on blend, packaging, and in addition, communication design and communication testing. So, these are three phases.

The fourth one that we follow as a discipline is we pick up two or three markets and we do a prototype launch like we have done for ICONiQ. Currently, Srishti is through as an example with the prototype launch. We were selling it in Haryana, UP and in the market in East. And we like to build what we call a playbook. Essentially, idea is to make sure that as we scale the brand, we are reasonably sure on return on investment.

So, once we believe that we have a playbook is when we start expanding into other markets, other co-markets which could take depending on the label approval cycle because each state has its own requirement and some states window open at different times of the period could take up to 12 months. And then the fifth stage really is scaling up the brand.

So, broadly from start to finish, it could be about a three-year affair from the time you conceive an idea to the time you actually launch it and then scale it up. So, for that purpose, having a robust pipeline of new product is extremely important because the market or the consumer would only get to see it when you launch it. But for us to be able to come to that point of launch, it could take up to 18 months.

Moderator: The next question is from the line of Ishani Kacholia from NV Alpha Fund Management. Please go ahead.

Ishani Kacholia: Hi, congrats on your great numbers. I would like to ask about how you intend to compete with the other rising players in the same sector. For example, Tilaknagar Industries, Piccadilly Agro, United Spirits, etc. and like grow your own market capital.

Alok Gupta: So, it's a very eclectic choice that you have taken because each of this company has a very specific portfolio. Tilaknagar as an example is a largely brandy player, operates in south. So, we have to think about competing with Tilaknagar only with our brandy portfolio and we have developed a brand called Golden Mist which has just got rolled out in Karnataka and will progressively roll out into other states. We believe that there is a need for an alternate brand in every segment. I am quite happy with the progress we made on Golden Mist.

Piccadilly on the other side operates largely in the Single Malt category, where we do not have product for now. But on the back of our single malt distillery that we are building in Telangana, we will launch our own single malt. That's a question for a future because it's a couple of years down the line before our single malt gets launched.

Diageo, of course, has a very well diversified portfolio. They operate in Prestige Whiskies with McDowell's No. 1 and with Royal Challenge in the premium segment and thereafter the Super-Premium and the Luxury segment.

As far as the Prestige Whisky segment is concerned, we have already covered ICONiQ. We believe that the mega brands in these segments are more than 25 years old and there is a place for a newer brand and ICONiQ is sort of riding on that insight.

As far as the Super-Premium and Luxury segment is concerned, the demonstrated consumer behavior is very different, which is about experimentation, which is about trying out a new brand, which is looking out for the new flavor. Therefore, consumers are actively seeking newer brands and newer flavor. And to our mind, the trick really is to constantly provide newer experiences.

And earlier on, I spoke about Zoya, that on back of the Zoya launch, we also launched a Zoya Watermelon and a Zoya Espresso Gin. And we are also working on a couple of very interesting other flavors that will fit into what we call as either the sipping culture or the cocktail culture.

So, these three companies would need, from a competition point of view, I think the focus will always be consumer backed. Who is the consumer? What's the need that we can fulfill? How the brand needs to be designed? That remains a common theme irrespective of what segment we are operating in.

Ishani Kacholia: A follow-up to that question. Is there anybody that you do recognize as a direct competitor? And are you taking any, like.

Alok Gupta: So, the AlcoBev category unlike other consumer category is not driven by the penetration PCC code. So, when we talk about segment expansion, it is not about consumers who don't drink to tell them to drink or consumers who drink tell them to drink more. So, we have to recognize that the consumption in the AlcoBev segment is driven by macroeconomic factors which are around the social hazard, which is around education, digital literacy, and access to social media. So, I think these are factors that really shape the market.

Therefore, in terms of a question of what we believe the competition is, I think it's to do with how the society at large is adopting AlcoBev as a category. We are seeing some moderation with the Gen Z consumer. It is quality over quantity. And therefore our outlook is in time to come, we need to start looking at value growth as a better measure of growth than just a volume growth.

Moderator: The last question is from the line of Harsh Shah from Bandhan AMC. Please go ahead.

Harsh Shah: Thanks for taking my question again. Sir, just one broad question. What would be the industry level volume and value growth for 4th Quarter in IMFL?

Alok Gupta: Which quarter did you talk about, sorry?

Harsh Shah: Fourth quarter, yes.

Alok Gupta: Just 10 seconds before answering your question. The P&A segment grew just about 2% in Quarter 4.

Harsh Shah: 2% in volume, sir?

Alok Gupta: In volume terms, we grew about 32%. The overall industry was flat in Quarter 4 and we grew about 20%.

Harsh Shah: Overall, it's basically popular plus P&A put together was flat in terms of volume. And in terms of value, sir?

Alok Gupta: The industry does not track value. So why do hazard a guess? But I think increasingly value should become an important KPI. Internally we have started to measure value with a very sharp focus.

Harsh Shah: And just one last question is on for our company, for FY '25, what would have been the growth for OCW and Sterling Reserve?

Alok Gupta: So, OCW, the whisky, the Mass Premium whisky de grew by about 13% last financial year. We did not grow. So, we were the same volume by and large. So, in a degrowing 13% environment, we were able to hold on to our volumes. And if I may just remind that we did take some volume cut in markets where we felt that the gross margins were not in line. Therefore, we are quite happy that in a significant degrowth market, we have been able to hold on to our volumes.

Harsh Shah: And for Sterling Reserve?

Alok Gupta: Sterling Reserve degrew a bit last financial year, though the P&A segment had a single-digit growth. So, that is something that we are working on right now.

Harsh Shah: And this degrowth is what, mid-single digit kind of or somewhere in that range?

Alok Gupta: No, it's been a double-digit de-growth for the brand. But like I said, we are currently working on addressing that gap.

Harsh Shah: I mean, is there some bit of cannibalization by ICONiQ White, I mean in your assessment, or that would not be the case?

Alok Gupta: Absolutely, the brand has gone to do 5.7 million cases. It has acquired consumers both from deluxe whisky segment and from the semi-premium whisky segment. We have not done any quantitative research.

However, when we are in the retail outlets and we ask a question to a retailer that where is the growth coming from, typically our sense is about 80% growth of ICONiQ is coming by people upgrading to ICONiQ from a lower price point which is the deluxe whisky price point, and about maybe 20% is coming from younger consumer of a semi-premium segment. So, it has taken shape from all brands, including brands from our own portfolio.

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

Alok Gupta: Well, thank you very much for your time. I hope we have been able to address the questions that you have. And we will catch a quarter down the line.

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

Notes: 1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.

2. Figures have been rounded off for convenience and ease of reference.