August 19, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001
Scrip Code : 507205

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block-G,
Bandra-Kurla Complex, Bandra (East),
Mumbai-400 051.
Symbol : TI

Sub: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of earnings conference call held for Q1 FY25 results

Dear Sir/Madam,

With reference to our letter dated August 08, 2024 and pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the earnings conference call with analysts and investors held on Tuesday, August 13, 2024 to discuss the Q1 FY25 results.

The same is available on the website of the Company at www.tilind.com.

Kindly take the above on record and acknowledge receipt.

Thanking you,

Yours faithfully,

For **Tilaknagar Industries Ltd.**

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Tilaknagar Industries Limited's

Q1 FY25 Earnings Conference Call Transcript

August 13, 2024

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

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

Siddharth Rangnekar: Good morning, everyone, and thank you for joining us on Tilaknagar Industries Limited's Q1 FY25 Earnings Conference Call. We are joined today by Chairman and Managing Director, Mr. Amit Dahanukar, President, Strategy and Corporate Development, Mr. Ameya Deshpande, and Chief Financial Officer of the company, Mr. Abhinav Gupta.

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

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

Amit Dahanukar: Good morning and welcome to our first Quarter Earnings Call for FY25. I will first cover some strategic and performance updates with you, which shall be followed by an operational and financial review by our President of Strategy and Corporate Development, Ameya Deshpande.

We are happy to report our highest ever Q1 EBITDA at Rs. 50 crore despite facing a challenging operating environment. While volume growth was 0.9% YoY, our EBITDA growth stood at 30.8% YoY. This significant growth in EBITDA has been on account of cost optimization initiatives and increasing share of premium products in the portfolio.

We have delivered a stable set of numbers in Q1, which is on expected lines and as guided in our earlier Earnings Call, predominantly on account of disruptions due to elections. Whereas different regions had varying degrees of impact due to the elections, the IMFL industry in Southern India, which contributes 85% plus of our volumes, de-grew by 0.1% YoY in Q1, predominantly due to these disruptions. Now with the election-related disruptions out of the way, we expect industry to continue its earlier growth momentum going forward.

In addition, we are also expecting two of our key southern states to come out with progressive excise policies very soon, which will not only benefit the industry, but also TI to a greater extent, given our market leadership and strong brand equity with consumers in both the states. At an overall level, we are looking at this moderation in Q1 as a transient phase and are confident of resuming our industry-beating growth going forward, with focus on a good mix of market share gains in our existing portfolio, as well as innovative launches within the Brandy category and beyond. I am happy to share that even in this challenging operating environment in Q1, TI has maintained its leadership position in all its key states.

We continue to be the third largest P&A IMFL player in Telangana and Karnataka, as well as the largest IMFL player in Puducherry in Q1 FY25. On the cost front, we have seen some level of softening coming through glass and other packing materials. Despite the highly volatile and inflationary trends in ENA, we have done a great job in our procurement efforts and have seen ENA costs come down by almost Rs. 2 per litre in Q1. Both these factors have enabled us to maintain our gross margins on a QoQ basis, despite a reduction in NSR per case. This reduction in NSR is not an indicator of reversal in our premiumisation journey. The NSR in Q1 fell compared to Q4 FY24 purely on account of state mix and not brand mix.

On our portfolio strategy roadmap, as a leader in the Brandy category, we continue to invest to broaden the demographic appeal of our portfolio as we add innovative products across the premium range. We continue our efforts to meet price-need gaps in Brandy, especially at the premium end of the segment. We have an exciting pipeline of innovative launches that we are working on, and these should see the light of day over the coming few quarters.

Our newest launch, Green Apple Flandy, has gathered tremendous appreciation from consumers and trade alike, and within the first quarter of launch itself has achieved a 20% share of Flandy volumes across flavours in the two states where it is available, i.e., Telangana and Andhra Pradesh. Green Apple is a great addition to our Flandy portfolio, and we are very excited to occupy a meaningful position in the overall flavoured spirits ecosystem, which till now has been mainly occupied by white spirit brands. We are especially excited with the opportunities that Flandy has to offer, given the progression of the cocktail culture among consumers in India.

Given a combination of the right brand mix, distribution strategy and consistent communication, our products are consistently ranking at the top of leaderboards. I take great pride in sharing that we featured prominently in the recently published The Millionaires' Club 2024 report by Drinks

International, which has recognised Mansion House Brandy as the largest-selling brandy and the eighth largest selling spirits brand in India in calendar year 2023. Additionally, our other millionaire brand, Courrier Napoleon Brandy, is the second-fastest-growing brand globally and third-fastest-growing spirits brand globally during the same period.

Before I hand it over to my colleagues, I would like to reiterate our belief in maintaining our industry-beating growth going forward. This growth will be through a combination of market share gains in our existing portfolio as well as innovative launches within brandy across premium price points. In terms of our non-brandy strategy, we have a strong pipeline of products in the premium segment and will be making opportunistic launches in distribution-strong states to begin with.

I shall now hand the discussion over to our President of Strategy and Corporate Development for review on the financials. Over to you, Ameya. Thank you.

Ameya Deshpande: A very warm welcome to all of you joining us today. I will cover the financial and operating highlights with you.

During the first quarter, we have recorded a revenue growth of 3% YoY, predominantly on account of disruptions due to elections. The NSR per case came in at Rs. 1,252 per case during Q1 2025 relative to Rs. 1,249 in the corresponding period of last year. This relatively modest growth in NSR is on account of state mix.

Despite the modest top-line growth, EBITDA has grown well at 31% YoY and stood at Rs. 50 crore, our highest ever EBITDA achieved in Q1 of any year. The EBITDA includes a subsidy income of Rs. 5.6 crore and adjusted for the same, the margins would be at 14.5%, showing a 189 basis points increase compared to last year. This EBITDA margin growth has been driven by cost optimization initiatives and an increasing share of premium products in the portfolio. Going forward, we are confident of maintaining and bettering these margins.

Our profit after tax grew 56% to Rs. 40.1 crore, registering a PAT margin of 12.7%, that is a 430 basis points increase over last year Q1. With debt levels reducing significantly, we expect our finance costs to reduce further, enabling stronger profitability and cash flows going forward.

On the debt front, we reduced our gross debt by Rs. 22.3 crore and have now brought down our net debt to Rs. 42.6 crore. Furthermore, due to strong cash flows, we prepaid Rs. 20 crore of Kotak term loan in the quarter and as Mr. Dahanukar mentioned earlier, we will be looking at becoming net debt free during this financial year.

To summarize, whilst Q1 saw modest growth on account of external factors, we are very confident of maintaining our industry beating growth trajectory with resumption of a favourable operating environment and increasing focus on brand building and marketing. We expect strong volume growth and an even higher growth in profitability in the quarters to come.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Rishabh Gang from Sancheti Family Office. Please go ahead.

Rishabh Gang: I wanted to understand how the customer response been of the flavoured brandy, especially in the age group of 20-30-35 yrs. and in tier-1 and tier-2 cities of the states you are present in. How do we think flavoured brandy is doing in terms of getting customers to try the brandy in the first place, like introducing them to the world of brandy?

Amit Dahanukar: Flavoured brandy or Flandy as we call it in the States where it has been launched, which is essentially it is present now in Andhra Pradesh, Telangana, Puducherry and Sikkim. We have approximately 10% of the sales coming of Mansion House Brandy, which is the mother brand, which in the first year of launch, is fairly respectable. In fact, we are quite satisfied with the results which we have got.

We have trials coming in from non-brandy drinkers as well. Basically the consumer draw is two-front. One is Mansion House consumers also who are looking for a different experience, they try Flandy. And two is people who are used to having flavoured spirits, they are also trying out Flandy. Our draw is coming from not only brandy drinkers, but non-brandy drinkers as well.

Rishabh Gang: Also, which alcohol beverage does our flavoured brandy compete with among this customer segment? How are we doing, let's say, flavoured vodka?

Amit Dahanukar: Usually we are priced along with the flavoured vodka. When we look at our market share or tactical analysis which we do, we look at flavoured vodka category as well. Flavoured spirits category, which is largely dominated by vodka.

Rishabh Gang: How has the customer response been, i.e. preference towards Flandy and maybe flavoured vodka, has there been any change in their preferences?

Ameya Deshpande: See, the thing is that the flavoured spirits industry as a whole is growing. From that perspective, it would be wrong to look at it in terms of how much of share would we be taking from flavoured vodka as such. If there is any insight that I could provide in terms of how Flandy is doing, normally Q1 for us is the worst quarter from a seasonality perspective. Having said that, in Q1, Flandy has done more volumes than it did even in Q4 of FY24. Even on a quarterly basis, you are seeing Flandy actually growing despite being the weakest quarter from a seasonality perspective. So, that kind of gives you some indication in terms of what the response has been and so on.

Abhinav Gupta: I think one way where the flavoured spirits also work is that we are also getting trials from women. Typically the flavoured spirits have helped us break that image that brandy erstwhile used to be like male and maybe 45-year-old person having brandy. But this flavoured spirit helps us develop that young feeling among the people and also as I said, in terms of demographic, we see more and more women opting for our Flandy product.

Rishabh Gang: Just one last question. Have we done some customer survey about how are they finding this new beverage category and also what has been the feedback from outlets that are selling it?

Ameya Deshpande: I'll take the second part first. Feedback from outlet, I think, needless to say, has been great. Frankly, unless your sales, your tertiary sales are not good, outlets are not going to pick up your product and the very fact that we are having a significant growth in tertiary sales as well, that in itself is an indicator of the progress that the brand is making over here.

Rishabh Gang: Have we done some customer survey about how are they finding this new flavoured category and on what parameters have we evaluated the survey?

Ameya Deshpande: As a part of our overall SOPs, from a team perspective, we do have members of the team who are regularly visiting the retail shops as well as the other outlets on-trade, where the product gets sold. From that perspective, yes, we do have qualitative data as well in terms of how people are looking at this. And frankly, we are a pretty data-oriented company when it comes to that. Not only is it post launch, but we actually do surveys and trials even prior to launching a product to ensure that the product is what the consumer is asking for or wanting. From that perspective, I think we have it covered.

Rishabh Gang: Any interesting insights from the survey or from the data that you have?

Ameya Deshpande: I think data is the best way to look at this. And the very fact that it is doing 10% of the mother brand, which, by the way, is the largest selling brandy in India and the second largest in the world, is good enough feedback that we could have asked for.

Moderator: The next question is from Rahul Jain from HSBC. Please go ahead.

Rahul Jain: I just want to inquire about the distribution plans which we have. In my personal channels which I have checked in, I reside in Delhi NCR area. I've seen that the product is not very easily available at all the outlets. It's hard to find. Are we having any plans to enhance our distribution channels in the northern parts of India?

Ameya Deshpande: Yes. The thing is that as you would have seen across all our publicly available documents, 85% of our volumes are actually driven by Southern India. Now, this, frankly, is a function of the kind of portfolio that we have as it stands. We are a brandy first company. And given the fact that brandy is predominantly consumed in Southern India, that is where our distribution strengths lie in the Southern and Eastern part of India, along with a few pockets in the West. Having said that, yes, North is a region that is appealing.

But for that, we will need a fuller basket from a portfolio perspective. As we have mentioned earlier as well, while brandy is our mainstay and our focus for the next, let's say, 18 odd months, we are looking at other categories as well and are pretty much at a progressed stage in terms of launching with some strategic launches. To begin with in our distribution strong states, obviously, but very soon to make it a Pan India play for us. Give us some time, we should be there in North India as well.

Moderator: The next question is from Shantanu Mantri from Think Investments. Please go ahead.

Shantanu Mantri: Firstly, congratulations on a fantastic set of numbers. A couple of questions from my side. Now that these election issues are behind us, how have we seen volume ramp up in Q2?

Amit Dahanukar: Shantanu, now, as I mentioned earlier, I think the election period now is over in Q1. We are seeing good demand in Q2 and the guidance which we have given for the volume growth which will be in the double-digit volume growth that we are very confident we will be able to achieve. Of course, we are waiting for certain policy decisions as I mentioned in two of the southern states. Once they come, that will also set the direction since they are both important markets for us.

Shantanu Mantri: And from a policy point of view, obviously, we will have to wait for the actual policy. But from your understanding, because we're taking inputs from the top market participants, right? In which direction do you think this policy is going? And if you can give us some idea on the timeline, like will this be implemented from 1st of September? Where are we and in which direction is this heading?

Amit Dahanukar: What we have understood from reports is that in Andhra Pradesh, they expect to announce the excise policy to be effective from October 1. And in terms of direction in which it is headed, it is difficult to really predict. But what we can recollect is from the current CM's earlier regime, he was quite progressive. In fact, he encouraged participation from all players and was interested in growing the industry. It was more of a relationship where industry grew and government revenues also grew. We can expect something progressive which will be beneficial for the industry as a whole.

Shantanu Mantri: And one last question. There is a five and a half odd crore subsidy income. If you can throw some light on what that is.

Amit Dahanukar: This subsidy pertains to an earlier project which was classified as a mega project under the Package Scheme of Incentives 2007. That's the money flow which we have seen in this first quarter.

Shantanu Mantri: And if I see, you've done a fantastic job in terms of deleveraging and we're now almost, I think, at about Rs. 40 odd crore. High chances in the next quarter or in the coming two quarters, we'd be debt free. And you mentioned that we have a strong pipeline. If you can throw some colour, in which segments, is it vodka, brandy or which segments are we looking at? And probably at what price point, if you can give some colour on that.

Amit Dahanukar: Shantanu, you're right. I think the company has made tremendous strides towards its effort to be net debt free. This quarter also, as Ameya had mentioned, we made a Rs. 20 crore prepayment, which was in addition to almost a Rs. 50 crore prepayment, which we made in March quarter.

We are on track. In fact, our earlier commentary suggests that we would have been net debt free by March 2025. But I do expect given the current trajectory, it would be even sooner than that. What that will effectively do is that, the company will be generating a significant amount of cash, almost the EBITDA will largely translate into a free cash flow, which then we can prudently deploy into various strategic initiatives. Some of which could be new products, new categories.

Ameya Deshpande: And just to take that forward, Shantanu, we are looking at the luxury side of the industry as well. Very soon you should be seeing a luxury product coming out of our stables, over the next couple of months itself. And obviously, given the positioning that we are looking at for that product, you will see a decent level of visibility in states or rather in the larger cities as well over there. And there will be some level of presence across on-trade and key accounts as well over there.

Moderator: The next question is from Deepak, who's an individual investor. Please go ahead.

Deepak: Just one question, what is the expected Flandy market size in the next one year? And some idea about EBITDA margin expecting the Flandy especially.

Ameya Deshpande: It will be difficult to give an EBITDA margin for Flandy. Having said that, the Flandy contribution margins are extremely strong. Given the fact that it is on the premium end of the portfolio of the spectrum, our contribution margins are actually better in Flandy as compared to the weighted average for the company as a whole. From that perspective, as Flandy keeps growing, you will see significant amount of increase in margins as well.

Deepak: But what is the expected Flandy market size here in the next one year you are watching for?

Ameya Deshpande: Market size will be difficult to quantify. The thing is, who is a Flandy drinker? A Flandy drinker is one who wants to upgrade from an existing brandy brand. A Flandy drinker is one who also switches from a whisky at the same price point. A Flandy drinker is one who is also a flavoured spirit drinker. You have got three pies to pick from over here. Thereby, it kind of becomes difficult to quantify the market size for this. But obviously, given how the product or rather the brand is doing, we do see tremendous amount of potential for it to grow exponentially in the short term as well as long term.

Moderator: The next question is from Rahil Shah from Crown Capital.

Rahil Shah: You achieved 16% EBITDA margins in this quarter and you said that was due to cost optimization and some increase in share of premium products. Is this the new normal now for the rest of the year?

Ameya Deshpande: Yes. You should consider the new base, if you ask me, is 14.5%. Right. Adjusted for the subsidy, you're looking at an EBITDA margin of 14.5%. That will be your base. As your volumes keep increasing, right, as well as the policies that we mentioned, the impact of the policies comes through, obviously, you're looking at margins expanding further, not only on the back of increase in volumes, but other initiatives as well.

Rahil Shah: 14.5% plus we can expect ahead.

Ameya Deshpande: Yes. Like I mentioned, that's the base. You are looking at higher margins than that.

Rahil Shah: And when you say industry beating growth you are confident of resuming. You'd like to put any number to it for the year and ahead?

Ameya Deshpande: Yes. Like we mentioned, mid-double-digit growth is what we are looking at. That is the guidance that we are providing.

Rahil Shah: Can you provide any guidance on the revenue front?

Ameya Deshpande: Yes. It becomes difficult to provide a very specific guidance on revenue. Having said that, what we've always maintained, revenue growth would be approximately 300 odd basis points above volume growth.

Moderator: The next question is from Nikita from MIV Investment. Please go ahead.

Nikita: I have two questions. First is on the other expenses side. This quarter, I can see that on the other expenses, we had a good amount of saving. I wanted to ask if this is related to our marketing expenses or this quarter, we took a conscious call of not spending a lot because the volumes were supposed to get impacted. And my second question is regarding the tax credit. Can you give me the absolute amount of tax credit that we are yet to claim? And from which quarter we will start paying the taxes on our profits?

Abhinav Gupta: I think on the first question, yes, you rightly said that since we were expecting disruptions on account of elections, we have also sort of cut down on our advertising and promotion expenses in this quarter. That what we are seeing in the other expenses part. And regarding the second part on the tax, we had around Rs. 200 crore of tax credit available as at the beginning of the year. We are hopeful that this year we will not need to pay any tax and our tax incidence will start from next year.

Nikita: Next year from Q1 FY26?

Abhinav Gupta: Yes

Nikita: And so marketing expenses this quarter we decided to not to incur, but from next quarter will there be increase in that? And can you give me a percentage range that you have decided as a percent, I mean 6-7% of sales? Do you have any benchmark for that?

Ameya Deshpande: Firstly, yes, our other marketing spends will increase to some extent. Having said that, the EBITDA still expands for the simple reason that our cost of goods sold per case has reduced significantly. We have seen significant amount of savings on raw material as well as packing materials. Even if the other expenses do increase, your margins are still going to increase above that. Now with regards to a range for our A&SP spend, see given the fact that we are a predominantly brandy player, our A&SP spends are not as large as our peers. Our peers are in that mid-single to higher single digit kind of percentage of IMFL sales. In our case, it is more low single digits. Having said that, we see these as investments for brand building. Hence we are going to increase that, but our range let's say of 2-3 year perspective would be more in the range of 2.5%-3% of sales.

Nikita: In this other expense, Q1 it was 35% of sales and this quarter it is 30%. The entire saving in other expenses is related to marketing expenses or there are some other criteria or aspects related to it?

Ameya Deshpande: No, there are some other optimizations as well that have been done. Obviously it is not everything on the marketing side, but a good part of it is on marketing side. See your other expenses is a function of your state mix as well and hence that has reduced pretty significantly on a YoY basis. However, when we look at it from a margin perspective, I think it is best to look at margins from a QoQ perspective because that is the base that you work on. Thereby the change from a QoQ perspective is not that massive if you go to see.

Nikita: And one more question I want to ask. In terms of volumes, you have reported the overall volume growth, but can you give me a break-up of categorizing into a popular or P&A and above category? I mean how much did our premium portfolio grew this quarter?

Ameya Deshpande: See most of our portfolio is actually in the prestige and above segment. 85% plus of our volumes are actually driven by P&A. From that perspective, it was kind of a similar range in terms of growth for both.

Nikita: On an average, I can say that 85% of my portfolio is prestige and above category.

Ameya Deshpande: Yes

Nikita: And rest is popular. Can you start giving a break up of these two, because now we are seeing there is a huge difference, popular category is degrowing and P&A above category is growing a lot. Can we get an idea of the growth aspect?

Ameya Deshpande: The thing is, see we don't give proper data points around that. The only thing that we actually share is the fact that we are a predominantly P&A player. And that drives our entire growth to a great extent. Even our historical growth that you see whether it is 16% in FY24 or whether it is 40% plus in FY23, they were all predominantly driven by P&A.

Nikita: This quarter our P&A volumes were also impacted. We are saying because of election quarter.

Ameya Deshpande: Yes.

Nikita: And what is the volume growth that you are seeing for entire year and for the next 2 years?

Ameya Deshpande: Mid double digits as we have guided earlier on this call.

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

Amit Dahanukar: Thank you for your time and supporting us on our growth journey. I trust we have addressed your queries for today. We are available for further clarity and discussions at any time. Thank you.

Disclaimer: This is a transcription and may contain some transcription errors. The document has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to maintain a high level of accuracy.