Tilaknagar Inds.

Operator: Ladies and gentlemen, good day and welcome to the Tilaknagar Industries Limited earnings conference call. 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Siddharth Rangnekar – CDR India: Thank you. Good morning, everyone, and thank you for joining us on Tilaknagar Industries Limited Q1 FY27 earnings conference call. We are joined today by Chairman and Managing Director, Mr. Amit Dhanoo; Chief Strategic Officer, Mr. Ameya Vithal Pande; Chief Financial Officer of the company, Mr. Rajesh Chaudhary; and Growth and Innovation, Mr. Shanaya Dhanoo.

We shall commence with views from Mr. Dhanoo on the brief performance and financial highlights, followed by a commentary by Mr. Vithal Pande on the strategy going ahead. This will be followed by an interactive question and answer session. Before we commence, I would like to state that certain statements made on today's call could be forward-looking in nature, and a disclaimer to this effect has been included in the investor presentation that was shared with you earlier. This is also available on the stock exchange website. I would now like to request Mr. Dhanoo to make his opening remarks. Over to you, sir.

Management: Good morning everyone. Happy to have you all join us on this earnings call to discuss the Q1 FY27 results. I will provide an update on the current quarter's performance, which will be followed by Ameya taking you through the updates on Imperial Blue integration and guidance on future performance.

Before I begin with the quarterly performance, there are a few achievements I wanted to highlight. Firstly, we achieved the highest ever monthly volume of 3.4 million cases in June 2026, with Imperial Blue emerging as the largest selling deluxe whiskey. Secondly, Tilaknagar maintained its position as the largest PNA player in India amongst domestic companies and the third largest overall. In our stronghold region of South India, Tilaknagar is the largest PNA player overall with 40% market share. In fact, in the state of Telangana, Tilaknagar emerged as the largest IMFL player overall in the month of June.

As promised, we have delivered on our guidance to introduce Imperial Blue in newer markets by reintroducing the brand in Delhi during July 2026. We have high hopes for the brand in Delhi and are committed to taking it back to its historical legacy and beyond. In Q1, our overall volumes increased by 172% on a year-over-year basis and 9% on a quarter-on-quarter basis. The quarterly growth was led primarily by IB, which increased by 18% to reach 5.4 million cases. On a year-on-year basis, Mansion House Brandy has grown by 7%. We have achieved this growth despite some disruptions in the month of April.

Now, moving over to the financial performance, the overall NSR increased by 1.5% to 1,183 per case for Q1 FY27, from 1,166 per case in Q4 FY26 and by 5.3% from 1,123 per case in Q1 FY26. We witnessed a strong growth of 166% year-on-year to reach a net revenue of 1,046 crores during the quarter. Adjusted for subsidy, we recorded a growth of 189% to reach 1,026 crores.

The ongoing geopolitical tension led to inflationary pressures across packaging inputs, particularly glass, resulting in a meaningful increase in packaging cost during the quarter. Consequently, gross margins were under pressure. However, these pressures were partly offset by softened ENA prices. Adjusted for subsidy, we have achieved a gross profit of 432 crores in Q1 FY27 and a margin of 42.1% compared to 45.2% in Q4 FY26. Excluding the impact of inflationary pressures, the margin would have been higher, closer to 44.5%.

EBITDA stood at 169 crores for Q1 FY27, clocking a growth of 79% year-on-year and a margin of 16.1%. Adjusted for subsidy, the EBITDA grew by 166% to reach 148 crores and a 14.5% margin on the combined business. Excluding the impact of inflationary pressures, the margin would have been approximately 17%. Looking ahead, we remain confident of improving upon the 15.5% baseline EBITDA margin achieved in Q4 FY26.

PAT adjusted for exceptional items and acquisition-related amortizations stood at 96 crores for Q1 FY27, clocking a growth of 9% year-on-year and a margin of 9.4%. Adjusted for subsidy, the PAT grew by 52% to reach 76 crores and a 7.4% margin on the combined business. Excluding the impact of inflationary pressures and subsidy, the margin would have been approximately 10%. We incurred an exceptional expense to the tune of 30 crores during Q4 FY26 predominantly on account of technical service fees and integration-related expenses.

As on June 30, 2026, our gross debt stood at 2,241 crores and net debt stood at 2,100 crores. The increase in net debt is primarily on account of complete working capital cycle investments. However, I want to reassure you that our target is to take the net debt in March 2027 to approximately 1,700 crores. I wanted to reiterate that our focus going forward will be divided into four parts.

First, continue our journey to generate and fulfill demand for our brands to deliver double-digit volume growth. Second, optimize packaging, processes, and supply chain to reap benefits of operating leverage and economies of scale, helping us achieve an EBITDA margin of 16-18% on the combined business in the next two years. Third, focus on efficient capital deployment, disciplined debt management, and working capital investments, facilitating the reduction of net debt to EBITDA below 1 by FY29. Fourth, ride on the pan-India distribution strength of the Imperial Blue and Mansion House franchises to expand Tilaknagar's luxury and premium portfolio, including SSL.

On the brand front, our priorities have been clear. Increase trade and consumer engagements for Imperial Blue. We have successfully carried out new activations in 28,000 outlets during Q1 with consistent on-ground communications. Lastly, I wanted to update on the super premium and luxury side of the business housed within House of TI. We have expanded the presence of our luxury brands, Monarch Legacy Edition Brandy, Seven Islands Pure Malt Whisky, and Samsara Gin owned by Statement Spirits in West Bengal during the quarter.

SSL has more than doubled sales in Q1 FY27 versus Q1 FY26, demonstrating a strong market for craft spirits in India. The growth is led by Samsara Pink and the new launches with Indian flavors such as Jamun and Pink Salt, and Raw Mango and Jalapeno. They have also launched a ready-to-pour drink in the fast-growing agave and tequila space called House of Contessa towards the end of Q1. During the quarter, we also doubled down on our investment in Bartisan by increasing our stake from 36.2% to 41.5%. The proceeds from this investment will be used to expand within the quick commerce segment, product and packaging innovation, and for collaborative launches with Tilaknagar Industries. We are extremely optimistic on our luxury play, both organic and through our strategic investments. I will now hand over to Ameya to take you through the integration of Imperial Blue and provide guidance on future performance.

Management: Thank you, and a very warm welcome to everyone joining us today. On the post-acquisition integration front, I am happy to inform you that we have additionally launched from two more states, taking the tally to 90% of the IB business being successfully transitioned into Tilaknagar-operated units. Now, only one state remains under a transition agreement, and we expect to transition them over the course of the next few quarters, with an outer date of March 2027.

I would now like to provide some guidance on the combined business going forward. We maintain our guidance for FY27 of achieving high single-digit to low double-digit volume growth for the combined business. We are upgrading the guidance beyond 2027, including new launches planned from 2028 onwards. We expect an annual volume growth in the mid-teens over the next couple of years, and our revenues are expected to grow at least 300 basis points higher than the volume growth.

In terms of margins, we expect the consolidated EBITDA margins to reach 16-18% for the combined business by FY29, with an upward bias on the range. For FY27, we expect our margin to improve from the base of 15.5% set in Q4 FY26. As guided in the past as well, we expect the net debt to EBITDA ratio to go below 1 time by March 2029.

Lastly, I would like to explain a small change that we have made in the NSR calculation. While calculating the NSR, we have now reduced cash discounts, breakage, and wastages. This change is limited to the NSR calculation only, and there is no change in reported net revenues in the current or past quarters. The NSR for the current quarter was 1,183 per case compared to 1,166 per case in Q4 FY26. With that, I would now request the operator to open the call for Q&A.

Operator: Thank you. We will now begin with the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use headsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Abneesh Roy with Nuvama Wealth Management. Please go ahead.

Abneesh Roy – Nuvama Wealth Management: Thank you. I have two questions. First is on the IB overall scale-up. If you could tell us which states are seeing more traction and where there are more challenges? A specific question was also on Karnataka. Clearly, all the bigger companies are highlighting good recovery post the reforms. If you could tell us how the competition has shaped up for IB in that market? My sense is there will be a lot of changes in terms of the pricing, given there is a lot of flexibility and the number of slabs is also reduced. So if you could update on Karnataka as well. That is my first question.

Management: On Karnataka, post-price reduction, we have seen a good uptake in our volumes. Since the price reduction has taken place, our market shares also have significantly improved in the operating segment.

Abneesh Roy – Nuvama Wealth Management: And regarding the other states where you are seeing more traction in IB? Clearly, there was a lot of opportunity given it was under-invested the last few years. Which states are you seeing more challenges versus the company average, and where are you seeing more traction?

Management: Broadly, when we took over the business, we have seen improvement in all states compared to market share at the time of exit. Of course, the improvement will be in varying magnitudes, but without exception, we have seen improvement in market share post-acquisition compared to the three-month average at exit.

Abneesh Roy – Nuvama Wealth Management: Improvement I can understand because there will be improvement. But relative to the national average, which states are being easier and where is there more work to do? I understand everything will be better because clearly your overall aggression and local connect will be faster. But which states are doing better than your national average?

Management: Without getting into the flavor of individual states, I would say that the South on the whole has been an easier and more seamless transition for us given our earlier size and scale. Improvements there perhaps have been better than some other regions. But even in the North and the East, we have seen improvements. In the West, specifically in Maharashtra, we have also increased our market share. As Mr. Dhanoo mentioned, we won't get into details of individual states, but in each of the four regions, we have expanded our market share over what it was when we acquired the business.

Abneesh Roy – Nuvama Wealth Management: Sure. My last question is on the specific comments you made on Delhi. You have launched IB again. I wanted to understand the peak market share or peak size in Delhi for IB and when you see that being achieved? Secondly, on North India and other parts of South India, is the team scale-up done or is there still work to do? You were a South-focused company earlier, but now with IB being pan-India, are you happy with the current team depth and network depth in those markets?

Management: The team scale-up has been totally completed. The pre-acquisition strength was approximately 350 people. As on March 31, it was 850 people. The scale-up has been completed across India, particularly with additions on the ground in terms of sales operations because we were already well-covered in the South. We have added capability across North, West, Central, and East India, both in terms of sales and manufacturing footprint. That has already been completed.

In terms of Delhi, the peak volume of IB would have been about 0.5 million cases, and we expect that within the next 12-18 months we should be seeing those levels again.

Abneesh Roy – Nuvama Wealth Management: And this 0.5 million would have been 3 years back?

Management: It would have been 2019 or 2020.

Abneesh Roy – Nuvama Wealth Management: Okay, pre-COVID. Understood. Thank you. That is all from my side.

Operator: Thank you. The next question comes from the line of Nitin with HDFC Securities. Please go ahead.

Nitin – HDFC Securities: Hi, thanks for taking my question. My first question pertains to Odisha, Punjab, Uttarakhand, and Karnataka being impacted. Is this only for IB or the entire portfolio? And what were the specific reasons in Odisha, Punjab, and Uttarakhand?

Management: When it comes to that question, yes, it was predominantly for IB itself. We mentioned that these were transition-related issues specifically relevant for IB. I won't get into details of what each of these challenges were, but they were related to the transition.

Nitin – HDFC Securities: I was of the view that it might be a market-related challenge, but if it is transition-related, then it is fine. Secondly, how are we planning in the IB price segment where other brands have sharpened formulations and another brand is looking to grow at a faster pace, like Iconic White targeting 50% growth this year, and McDowell's increasing focus on Scotch and targeting this segment? Do you see increased trade spending on the ground? And secondly, how is the growth for the industry in this low prestige segment where we want to expand IB's presence?

Management: The competitive intensity you mentioned is absolutely correct. This segment is seeing activity after a long time. One reason this segment has perhaps not grown at a high range has been the inactivity of leading players. We are seeing a lot of activity by all participants in this category, which should be helpful for the overall category growth. Let us not forget there is a large volume of regular range products and country liquor sitting just below our price points. Activations and marketing activities in this segment will help in growing it. We are also increasing our A&SP reinvestment rates. As I mentioned in my opening remarks, our activations are now present in more than 28,000 outlets across the country. We have also become very active.

Nitin – HDFC Securities: Thank you. This is quite helpful. Regarding margins, we wanted to recover to a 15.5% EBITDA margin. How soon can we expect that, considering the packaging material inflation? How long will that continue?

Management: When we say we want to increase our margins beyond the base of 15.5%, we are assuming inflation is status quo. In Q3 and Q4, you will see a significant uptick in margins because those are the largest quarters from a seasonality perspective. For Q2, you should be looking at margins in a similar range, partly on account of incremental A&SP reinvestments.

Nitin – HDFC Securities: Okay, thank you. How are you planning for the next 3-4 years? We are in the early stage where we got a national brand, and other domestic players have been penetrating the premium space plus entering their back end. Any thoughts you can offer? I guess in the near term the focus will be more on IB stability, but any long-term thoughts would be great.

Management: This year will focus on IB integration and increasing the width and distribution of our existing product. Going forward, there are a few vacant spaces in our portfolio, and we would be looking at new launches in the next 12-36 months to complete our portfolio. With those new launches in place, we expect a volume growth CAGR in the mid-double-digits until FY29.

The company is committed in the right direction, and on the back of this distribution, we will be introducing our premium products as well. Our Own House of TI products, which include Monarch Legacy Edition Brandy and Seven Islands Pure Malt, along with the extensive reference spirit portfolio, are being taken to new markets. In terms of luxury and super premium offerings, our portfolio is fairly complete, and we now have the distribution infrastructure to leverage.

In terms of growth, you should look at the existing business including IB, where we will continue to gain market share. This will be alongside a significant focus on the super premium portfolio. As reiterated in our presentation, we have revised our guidance upwards in terms of volumes on account of the new launches that we will be undertaking from FY28 onwards.

Nitin – HDFC Securities: Sure, this is super helpful. Thank you and all the very best.

Operator: Thank you. The next question comes from the line of Heer Gogri with Choice Equities. Please go ahead.

Heer Gogri – Choice Equities: Hello, thank you for the opportunity. I wanted to ask what the run rate for IB volume should be going forward on a quarter-to-quarter basis?

Management: For the full year, it will be double-digit growth. When we acquired the business, it was around 20 million cases. We expect to end the year with double-digit volume growth for Imperial Blue on a base of 21.5 million cases.

Heer Gogri – Choice Equities: Okay. And what is the NSR for IB?

Management: We do not provide a bifurcated NSR. We provide a combined NSR.

Heer Gogri – Choice Equities: Okay. One last question. Are you expecting any price increase from Telangana?

Management: We are expecting a price increase from Telangana because it has been 3 years since the last increase was given. The industry is in active discussions with the government, and we expect a price increase to happen in Q2. In terms of quantifying the impact, it would be an incremental 150-200 basis points on margins on an annualized basis.

Heer Gogri – Choice Equities: Thank you so much.

Operator: The next question comes from the line of Vijay Jangir with Systematics Group. Please go ahead.

Vijay Jangir – Systematics Group: Hello, thank you for the opportunity. My first question is on Praj Distillery. We were expecting annual sales of around 100 million rupees. What is the current utilization rate, and are there any cost savings reflecting in Q1 margins?

Management: You haven't seen the entire benefit of the bottling coming into Praj Distillery yet, but what is already baked into the numbers would be around 60-70%.

Vijay Jangir – Systematics Group: 60-70%. And could you please comment on how competition in Maharashtra's main liquor categories is shaping up?

Management: Currently, the IMFL category is hovering in the 6-7 lakh cases per month region. There hasn't been significant movement in these volumes over the past few months. Specifically for us, we have been expanding market shares in the state. IBL has done very well in the state in the past few months, and we keep increasing our market shares in the relevant price points.

Vijay Jangir – Systematics Group: Okay. That is all from my side. Thank you.

Operator: The next question comes from the line of Vaibhav Gupta with Powhead India Fund. Please go ahead.

Vaibhav Gupta – Powhead India Fund: Hi, thanks for taking my question. I wanted to understand how big the Tamil Nadu market is for us? And if there is a route-to-market change, how it would impact us?

Management: Currently, the Tamil Nadu business is not very large for us. Annualized, it would be less than 0.5 million cases. However, Tamil Nadu is the largest brandy market in India, with approximately 40 million cases of brandy sold there. We are waiting to see what policy changes might happen under the current government in Tamil Nadu. If they allow imports or move to open up the market further, we could potentially be big beneficiaries.

Vaibhav Gupta – Powhead India Fund: Understood. That is all from my side.

Operator: The next question comes from the line of Sukrit Patil with I-Sight FinTrade. Please go ahead.

Sukrit Patil – I-Sight FinTrade: Good afternoon to the team. I have two questions. First, beyond the regular outlook, what are the top two to three execution priorities you are focusing on the next few quarters? Alongside that, what do you feel are the biggest risks in consumer demand shifts or competitive pressures, and how are you preparing to manage them?

Management: One of the execution priorities was the successful integration, which is already behind us. The sales integration was completed by February and 90% of the manufacturing integration was completed by April. Given the scale of the business we acquired, the team has executed very well to complete this in less than 4 months.

Immediate priorities include widening and deepening the distribution of Imperial Blue and reinvesting in A&SP so that our market shares can climb. Post-takeover, we have already seen market share improvements across states, and we hope this continues. The third priority is our luxury business. That is a long-term priority in terms of building the portfolio and launching new products.

Sukrit Patil – I-Sight FinTrade: Thank you. My second question is from a financial point of view. What key risks or challenges do you anticipate? What specific measures are being taken to manage margins, cash flow, and the balance sheet, especially regarding raw material cost volatility, receivables, and regulatory compliance?

Management: Inflation is something to be watched out for, and we noted it had some impact in Q1. However, we have several mitigating factors, including price increases in various states and ongoing discussions in others. That will help us mitigate the impact of raw material increases.

Management: I would like to add that our term debt of approximately 2,000 crores has been structured so that almost 80% of payments happen in years 5 and 6. This gives us adequate cushion with a moratorium in the first 2 years. Net debt stands at 2,100 crores for Q1, and we have a clear target that by March 31, FY27, net debt should be around 1,700 crores. There is a clear intent to reduce debt by approximately 400 crores in this financial year.

Management: I just wanted to add one point on the inflation front as well. Along with mitigating factors, supply chain optimization is critical. We see benefits from supply chain optimization activities that should lead to expanding margins on the acquired business by 250-400 basis points. When it comes to our consolidated business, we expect to expand margins by approximately 250 basis points.

Sukrit Patil – I-Sight FinTrade: Thank you, and best wishes.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for the closing remarks.

Management: Thank you all for joining today's call and for your continued interest in Tilaknagar Industries. We are pleased with the strong start to FY27 and the significant progress we have made in the integration of Imperial Blue. As we move into the next stage of our journey, our focus will be on driving sustainable growth, strengthening our premium portfolio, and leveraging our expanded pan-India distribution network. We remain confident in the long-term opportunities ahead and appreciate your continued trust and support. We look forward to updating you on our progress in the coming quarters. Thank you once again for your time and have a great day.

Operator: Thank you, sir. Ladies and gentlemen, on behalf of Tilaknagar Industries, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.