



## Fratelli Vineyards Limited

### Q2 FY25 Earnings Conference Call Transcript

#### November 18, 2024

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Fratelli Vineyards Limited Earnings Conference Call.

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

**Siddharth Rangnekar:** Thank you, Yashashri. Good afternoon, everyone and thank you for joining us today on Fratelli Vineyards Limited's H1 FY25 Conference Call.

We are joined today by senior members of the Management Team, including Mr. Gaurav Sekhri, Managing Director; Mr. Aditya Sekhri, Executive Director; Ms. Pooja Sekhri, Executive Director; Mr. Rajesh Garg, Chief Financial Officer and Mr. Hemant Arora, Chief Business Officer.

We shall commence with views from Mr. Sekhri on the strategic overview and continue with Aditya on the financial and operating perspectives. We shall be followed by an interactive question and answer session.

Before we commence, I would like to state that some of the statements made on today's call could be forward-looking and a disclaimer to this effect has been included in the results presentation that has been uploaded on the stock exchange websites.

I would now like to invite Mr. Sekhri to make his opening comments. Over to you, Mr. Sekhri.

**Gaurav Sekhri:** Thank you, Siddharth. Good afternoon, everyone and thank you for taking the time out to join us on our half-yearly FY25 Earnings Conference Call. I will be covering an overview of our business and strategy and shall be followed by Aditya on the salient aspects of the performance and operating achievements.

As we are a relatively new company in the listed space, I wish to underline our business in brief. As India's finest wine makers, we have invested over 15-years building an integrated model. Innovations across Viticulture and Oenology have given us an advantage. We are engaged in active farming across 400 acres to support a 5.3 million litre winery. Over the years, we have successfully imported and adapted exclusive grape varieties to Indian terroir in order to produce award-winning brands like J'NOON, SETTE and our Master Selection Range.

India has a sizable consuming population where a large percentage of consumption is attributable to the spirits and beer. Wine as a share appears relatively small, but is rapidly catching up as a drink of choice among occasions, gender and life stage. Given the demographic growth, this core alcohol consuming class is going to continue expanding and with it those wine brands that have made a mark. Fratelli's portfolio has a distinction of having over 70% of sales comprising from premium and luxury brands.

At Fratelli, we are getting future-ready. I would like to highlight to you a few of the initiatives that are underway presently and they are:

- Expansion of Vineyard acreage by adding about 40 acres of vineyard under active farming in H2 which we will be expanding to another 60 acres before Q2 of next financial year
- Augmenting our winery capacity in order to give a boost to premium and higher end wines, our new winery building is ready and we will make it operational by 15th December
- We are investing in technology and automation, to extend better control across our integrated value chain as well as to bring greater efficiency in operations
- We are in the midst of development of a luxury vineyard tourism resort with a never before experience in India. This will come up at Akluj in Maharashtra and we expect to open in FY27
- Induction of new brands in premium and above categories in H1 itself, we have introduced a new variety as Pinot Noir, Master Selection Late Harvest and a Double Magnum in SETTE

We are very focused on high quality leadership, and it starts with having a high quality board. We are happy to announce the addition of Mr. Sanjit Randhawa and Mr. Nakul Zaveri to our board of directors. Sanjit is a veteran of AlcoBev industry with over 40-years of experience, out of which more than 20-years have been spent with Bacardi. Nakul is a partner with LeapFrog Ventures with focus on investing for climate and for profit businesses. He has more than 20-years of experience in operations and in the investment domain. Thus, in FY25, we set the tone for the next leg of our growth journey.

India already is home to one of the largest bases of consumers of AlcoBev. As the country becomes more affluent, we will see demand for premium brands, especially in wine taking off.

The uptick in metros and large cities is growing due to multiple factors, some of which I'll highlight as follows:

- Increase at home consumption, where you then tend to consume more premium products
- Expansion of upmarket retail format stores which are called modern trade outlets, that indulge customers with superior experience. This we have seen is very, very beneficial to wine sales
- Prevalence of upscale standalone restaurants and newer high-end hotels

What is interesting is that Tier-2 and beyond right up to certain rural centers are showing a favorable trend in consumption. We are aligning our portfolio and pipeline with a higher number of brands aimed at these audiences. Work towards building the category continues. And soon you will see a range of innovative products at a more popular pricing, which we are seeing at this point-of-entry into the world of wines.

Our performance will start showing momentum during the year once the industry factors that are impeding growth are out of the way. For the next year, we will have the benefit of the revamped winery and expanded vineyards that will further underline growth both of top line as well as bottom line. Given our diligent focus on cost and process optimization, we will see growth adding to our margins progressively.

I will pause here and request Aditya to continue this conversation with his perspective on the performance.

**Aditya Sekhri:**

Good afternoon, everyone. I will take you through the financials and the operating progress during the first half of the fiscal FY25.

In H1, performance was shaped by several industry-wide, one-off factors. These include a rise in dry days owing to election activity, the disruption in the excise portal in Delhi, and changeover due to new excise policies in Karnataka and Andhra Pradesh. Subsequent to these temporary challenges in select key markets, our business momentum is normalising.

Gross margins sustained year-on-year at approx.80% during H1 FY25. Our EBITDA margins came in at 6% and these reflect a lower operating performance but also our thrust on strategic investments on long-term initiatives in category development, infrastructure, and brand visibility, aligned with our overall growth plan. As our growth initiatives bear fruit, we will have an enhanced operating footprint.

Just to give you a flavour of the pace of execution I shall underline some of the performance trends on a full-year basis. Over FY21-24, Fratelli Vineyards has achieved a robust net revenue CAGR of 24%, driven by volume growth supported by expanded capacity and an optimized product mix. Our gross profit also saw strong growth at a 26% CAGR, bolstered by a higher proportion of premium products in our sales mix. EBITDA improved with a 100% CAGR over the same period, benefiting from operating leverage.

Looking ahead, we're excited about our upcoming winery and vineyard expansions, with projects set for commissioning in H2. This capacity augmentation will further strengthen our performance trajectory.

We continued brand investments in Q2 with increased brand visibility spends, lifestyle and experience driven collaborations, along with targeted trade activations through tastings and samplings. Overall, the A&P spend is up more than 40% vs previous year.

I shall cover some of the key activities during the period:

- We were present at India's most premium wine trade convention, Vinexpo 2024 at Mumbai. Through a specially designed enclosure, we presented signature wines like SETTE, J'NOON, Master Selection and our single varietals selections.
- We hosted an exclusive Sette Vertical Dinner in partnership with JW Marriott Bengaluru, where we celebrated Fratelli's commitment to winemaking excellence. Featuring a rare vertical tasting of Sette, the event highlighted each vintage's unique character, At this special evening, we also introduced India's first Double Magnum bottle. Sette is the only Indian wine that has a library of back vintages and can be presented at a vertical tasting
- Through our "Noi Nights" campaign across prominent nightclubs, we strengthened Noi's identity as a brand for vibrant celebrations, engaging a youthful, energetic audience and enhancing our presence in the nightlife scene. Noi now holds a leadership position in the premium sparkling wine segment in the 1000 – 1500 Rs. price segment.
- Our Commitment to invest in the HoReCa segment continues as well, backed by strong industry growth levers. Last FY alone, 119 major hotels opened across India, adding an inventory of 12,000 rooms. Interestingly, 9000 of these were in tier 2 and tier 3 cities. With our leadership position in HORECA in various markets, we expect these trends to continue and further strengthen our momentum in this segment
- Tilt, our wine in a can product remains a major focus area for us backed by the necessary investments. We have started a new "AT Home Party" campaign wherein we collaborate with the right influencers to host the perfect house party for our TG. Tilt showcased a strong double digit growth in H1

These initiatives have deepened our connections with the distributors, familiars and our consumers, amplifying Fratelli's brand impact and our commitment to innovation in the Indian wine industry.

In the quarter we also marked a significant milestone with the soft launch of India's first wine and coffee bar at Koramangala, Bengaluru. This collaboration with Blue Tokai brings together two beloved homegrown brands, creating a unique experience for consumers to enjoy Fratelli wines in an intimate, experiential setting. The outlet also sells our exclusive wine-barrel-aged coffee. Additionally, the outlet includes direct-to-consumer sales, providing easy access to Fratelli's premium wines. This new venture underscores our commitment to expanding the wine culture in India and fostering stronger, memorable connections with our consumers.

As a responsible corporate, we remain committed to making a positive impact across multiple tiers outside of business. I shall elaborate upon few such initiatives we undertook in the first half of the year::

- We've built a sustainable value chain from ground up, creating employment for rural families by transforming barren land into productive vineyards.
- We've implemented a 'water ATM' system, providing safe, clean drinking water in Garwad village, which is near our facility.
- 95% of our packaging materials are sourced domestically, significantly reducing logistical burdens.
- We're dedicated to building world-class brands with sensitivity and care, aligning our marketing efforts with ethical standards and respect for local communities.
- We have adopted a local school near our winery, to enhance educational resources, improve infrastructure, and broaden learning opportunities. This is our commitment towards Akluj's future, helping nurture young talent and contributing to the region's long-term growth and development.

Fratelli Vineyards has created an industry paradigm within alcobev, establishing a fully integrated presence from vineyard-to-wine bottle. Our journey is gaining momentum, and FY25 will see investments in vineyards and winery getting commissioned. FY25 shall also see us breaking ground on the first of its kind ultra-luxury, vineyard tourism at Akluj and the launch of a new RTD product which is expected to launch in Q4 in this year. Building acceptability and accessibility around wine consumption remains a core area of focus, where our upcoming new launches in innovative product formats and experiential settings, shall resonate.

With that, I request the moderator to open the forum for Q&A and all of us here today will be happy to address query from our participants, we will be happy to answer any questions. Thank you.

**Moderator:** We will now begin the question-and-answer session. We'll take our first question from the line of Priyanka Laroia from Value Prolific. Please go ahead.

**Priyanka Laroia:** I have some couple of questions. So, you have raised some money from the preferential issues. So, how the money has been utilized and what's the overall strategy going forward to compete with your only listed player, which is Sula Vineyards?

**Gaurav Sekhri:** Priyanka, first on the capital raise, we have raised this year approximately Rs. 50-odd crore. The bulk of this money has been deployed in the expansion of assets. So, about Rs. 25-30 crore has already been used for capital expenditure and capital outlay for this year itself is Rs. 50 crore and we have also taken about Rs. 25-odd crore of term debt and the remaining money from the raise has been used in working capital.

**Priyanka Laroia:** The outlook going forward for the next five years and the strategy to compete with Sula?

- Aditya Sekhri:** So, our outlook, we believe we are well positioned in the segment now. I think we have been beating the industry average for the last three-odd financial years especially post-COVID and in this year of course there have been disruptions as I discussed as well in my speech, but I think going forward with the capacity expansion as well that we are doing, I think we will be looking to beat the industry average year-on-year for the next four to five years and we are very well positioned now with our increased footprint like I mentioned as well in our previous earnings call, we are available now in almost 24,000 touch points and with the Pan India availability as well.
- Priyanka Laroia:** So, any acquisitions plan in the coming quarter or year?
- Gaurav Sekhri:** Gaurav here. It is very premature to disclose anything today on this call. But any interesting opportunity comes, we are now geared up to look at it.
- Moderator:** We'll take our next question from the line of Sriram R, an Individual investor. Please go ahead.
- Sriram R:** So, what would be the impact for us once the UK and EU, FTA is signed, I mean in case you feel we may be impacted, what are the efforts taken by the company to minimize this?
- Aditya Sekhri:** So, the current FTA, which stands at the moment does not impact us at the moment and you know we've been mentioning as well, previously you know till the time that protection is there, till that \$4 or so mark, which continues to remain currently it's up to \$5, even if it goes to up to \$4, we are very, very well positioned. So, I think in the current slab that is being proposed right now, we are very, very comfortable and I don't see any impact on business at all.
- Sriram R:** Sir, see, you yourself getting into other spirits, because we keep hearing Tequila eating into the premium end wine market and so on. So, do you have any thoughts on that?
- Aditya Sekhri:** With wine being in each category, I think just in and around wine ourselves, we want to be a wine lifestyle brand, we want to be in and around any segment pertaining to wine. So, I think with the launch of a new product coming up in Q4, we'll further strengthen our position in the segment, but our focus continues to remain in the wine category as of now, since there's still a lot to do.
- Moderator:** Next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.
- Keshav Garg:** Sir, I wanted to understand that what is your average realization per case and how does it compare with the market leaders?
- Aditya Sekhri:** Average realization per case, while I can't give you the exact figure as that's confidential to us, but I can comment that our salience overall at a company level, 70% of our sales come through our premium, luxury brands and our sales mix is at about 10% to 15% higher than the usual industry average that we see in terms of net realization.

- Keshav Garg:** Sir, if you could tell us that, how do you categorize premium segment which you are talking about is more than 70% of your revenue, so above what price of bottle you consider premium?
- Aditya Sekhri:** So, I think it remains fairly similar for the entire industry. So, anything below Rs. 550 for us and for the industry is in the value segment which we call the value segment or the cheaper segment, then from Rs. 550 to about Rs. 1,100 or Rs. 1,050 is what we call are premium segment, Rs. 1,050 onwards is whether super premium segment starts and that goes on till the MRP of Rs. 2,000 and Rs. 2,000 onwards is what we call the luxury segment. So, in the premium, super-premium and the luxury segment which we classify anything above Rs.1,000 essentially is where we say our revenues are north of 70%.
- Keshav Garg:** When you say active grape farming is 400 acres which you are expanding by 100 acres, another 100 acres, so this is your own corporate farming that you are doing.
- Gaurav Sekhri:** That's correct. These are the lands where we are employing all the workers, we are in charge and managing and taking decisions of agri imports, harvest, everything, the whole spectrum.
- Keshav Garg:** Lastly, if you could tell us that, sir, what is the status of this WIPS subsidy in Maharashtra which is basically wine incentive promotions are pretty wherein 80% of the VAT is given back to the wine manufacturers? And how much of your revenue is coming from Maharashtra and Karnataka? And sir, what is the effective tax rate outside of these states?
- Aditya Sekhri:** So, with respect to the WIPS policy, fortunately, the disbursement has begun in the previous financial year as well. While we got some allocation in the first half, and we continue to expect that in the second half of the year as well and we will be back on track fully by end of this financial year. So, that's good. So, there was a pause in the middle. So, from its own perspective itself, Maharashtra, and the entire west zone, cumulatively contributes roughly 25% of our overall volume.
- Keshav Garg:** And the Karnataka?
- Aditya Sekhri:** Karnataka as a state, standalone state contributes about 15%-odd for the top line.
- Keshav Garg:** And the tax rate for outside states where such subsidy is not there, what is the approximate or let's say average tax incidence?
- Aditya Sekhri:** So, that varies from state-to-state, the duties, as you understand the AlcoBev market, it changes essentially from state-to-state, there are certain states which have a higher duty slab, there are some which have a very, very favorable duty slab as well, right. And therefore of course they're more pertinent to wine consumption, even wine manufacturing and the classic example that would be say, Maharashtra.
- Keshav Garg:** So, basically, do we need to set up a winery in each and every state to enjoy a lower tax incidence?

- Aditya Sekhri:** No. we believe that there are two areas which are best suited at the moment for wine production; they still remain to be Maharashtra and Karnataka, and we have footprints in both of those locations already. Of course, there are certain varietals in which we are doing R&D and of course they could be more suitable to grow in certain climatic conditions which are colder. So, that's some R&D and some development that we're doing at our end. But as and when that will be possible, we'll give you more of an indication. But for the time being these are the two states that remain best suited to supply in the country, and we have our footprint in both of these states.
- Moderator:** We'll take our next question from the line of Nitin Gupta from Emkay Global Financial Services Ltd . Please go ahead.
- Nitin Gupta:** Basically, wanted to gain in terms of the Q2 revenue decline on YoY basis and plus also wanted to understand how is your ATL and BTL spends for the quarter?
- Aditya Sekhri:** So, there was a decline in the revenue on an H1 basis and I think this year being a very, very different year to be due to the higher impact of dry-days and also the change in the excise policies, I think the major concern across the industry was the delay in the shipment that happened on account of this. Andhra Pradesh, Karnataka and Kerala these three states being major contributors, naturally had an impact on the revenues, but with the disruptions now coming to an end, we see that come back or at least reviving some of the revenue that we've lost in the first half year vis-à-vis the previous year. And with respect to ATL and BTL, on marketing as a whole, I comment that we have spent roughly 2 crore additionally versus what we spent in the first half of the year compared to the previous financial year.
- Nitin Gupta:** And this spending is more of a retail in nature or like is this ATL?
- Aditya Sekhri:** It's a combination of both ATL and BTL.
- Nitin Gupta:** Do you think there is any excess inventory in the trade that also have a bearing in terms of the top line?
- Gaurav Sekhri:** There is some higher inventory in the system and that's largely because of the disruptions that have happened during Q1 and Q2, but it is nothing abnormal, it is a little bit higher than usual, and we are very focused on that as we wish to run a very efficient model of business in terms of the inventory which remains in the pipeline. It's also more to do with protecting the quality of wine, because the longer they remain in depots of governments, etc., we are kind of unsure of how they are kept and maintained.
- Moderator:** We'll take a next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.
- V,P. Rajesh:** So, my understanding was that the wine industry in India is growing slower than the whisky industry. And so I just wanted to get your thoughts on that, as you and a few others are in the wine industry, so what is the reason behind that growth that has sort of slowed down in the last few years?

- Gaurav Sekhri:** You are right. I think India has historically been a spirit market and wine is a newer concept and trend and starting from a really small base. But that is changing very fast. We see some pockets showing exceptional growth where it has beaten spirits even, possibly Telangana as a market which stands out with that example. But in many other places because it is an expensive lifestyle product, so it does have its limitations and because of that it sometimes is tempered, but overall we strongly believe that wine consumption will surpass the consumption of other kinds of alco beverages.
- V,P. Rajesh:** And then my other question was, in terms of the market, there are obviously imported brands. So, if you can just speak to what is the market share of the Indian produced wines and what is our market share in the overall volume pie of the wine industry in India?
- Aditya Sekhri:** So, our market share, if you look at the pan India basis is approximately 30% at a national level and that range is of course in the premium segment as well, but however, if you see there are two major segments which are HoReCa and Retail. But if you do the average, it's roughly about 30% at the national level is what we're looking at.
- V,P. Rajesh:** And 30% of the overall volume or just the Indian produced volume?
- Aditya Sekhri:** Domestic market share.
- V,P. Rajesh:** So, that includes the sale of imported wines as well, right, which is there as part of that market?
- Aditya Sekhri:** Can you repeat your question? What did you say?
- V,P. Rajesh:** I am just saying that when you talk about the market share, you're including the imported wines also, which are sold in India, right, that would be the right way to think about it?
- Gaurav Sekhri:** The market share we have mentioned at 30% is our market share of Indian origin wines, so domestically.
- Moderator:** We'll take our next question from the line of Ranjeet Kate from BGA. Please go ahead.
- Ranjeet Kate:** Compliments to the Fratelli for producing good wine. I have visited your stall at ProWine. I think you had great presence. Congrats on that. I have only one question which is connected to the previous question. Given that wine is so small in India, the decline of growth rate is really the one fundamental question that the investor would look at. Otherwise, today, given the market cap of Sula and Fratelli, it should be a great buy, but we are not so sure about the growth in wine as a medium vis-à-vis beer and hard alcohol, any comments?
- Gaurav Sekhri:** So, your question is extremely valid. It's something that we are also looking at all the time. The fundamentals for growth of wine are intact. If you see signs of wine consumption to per capita income, change of lifestyle, habits, etc., are all pointing towards a much, much higher wine consumption in India.

I think some of the things that tend to give wine setback in India are also changing, but I'll tell you, that may give you some clarity of why wine growth has not been to a level where the potential is. Wine is a very touch-and-feel business, it's a business where the modern trade outlets, presence of on-trade outlets, tremendously helps the wine consumption. Customers like to go, see, browse, it's part of the experience. Spirits business is very different. People like a particular brand, they stick to that brand and they know what to ask. It doesn't really necessitate being in modern trade outlets. So, we've seen Delhi policy, for example, the disruption that has happened, where beautiful stores had opened, then they all shut down and we're back to government stores. These kind of things don't help the wine consumption. I think in some states, the taxation policy on wine also could be made more friendly. So, these are some of the systemic issues which are being addressed, more and more modern trade outlets are opening, more hotels are opening, more occasions are being created and all of that will substantially help in improving wine consumption. And I believe India is many countries within a country; we saw that in Telangana state this year where this one state outshines in terms of growth and wine consumption, overall grew if I am not mistaken, more than 50%. So, you just need one, two states like that to become game-changers and kind of increase the overall consumption pattern. But we are as an industry and Fratelli even more than our peers, we are doing a lot of work in increasing the category, increasing awareness about wine and we have seen that work for us over a last decade and I am sure it will also bring results to us over the next few years.

**Ranjeet Kate:** I just have a small question. Is there scope for lower alcohol wine, say around 5% in India?

**Gaurav Sekhri:** Our understanding is not so much. I think the consumers drinking alcohol would like to experience the presence of alcohol in their beverage. So, our belief is zero alcohol wines which are becoming quite popular in Europe and the US, I think we are a little while away from that in India and I think wine at 12% to 14% alcohol is the right kind of requirement for the Indian market.

**Moderator:** We'll take our next question from the line of Preet Gajar from Almondz Global Securities Limited. Please go ahead.

**Preet Gajar:** The first question I had was how significant is the export market for Fratelli's growth and what strategies do you have in place to strengthen your global footprint?

**Aditya Sekhri:** In terms of exports, we're exporting currently in about 11 countries. Exports is a very, very nominal share of our overall top line at the moment; it's less than about 2%. And as I mentioned in my previous earnings call as well that for the next couple of years, there's so much to do just in the domestic market and for us overall just take the category up over here and to make it permanent, first over here to do a lot of ATL, BTL, a lot of measures that we are looking to do parallelly as well, right. So, I think those eventually as we have seen also in the case of Indian spirits will have an impact globally with Indian wines having obviously higher value share there and therefore then I see that will then create a further opportunity for exports in the next three to five years to then have a good share. But for the next three to five years, I

believe a large percentage of the work we will do will be in domestic market in India.

**Preet Gajar:** Also, could you provide more details on the Vineyards Tourism project and like what kind of revenue contribution do you anticipate from this segment?

**Gaurav Sekhri:** So, we are actively now working on our Vineyard Resort Project. As I had mentioned in my opening remarks, we expect to be open towards the end of FY'27. It is a bit early for us to give you projections of top line, etc., What I can share with you is that this will be a 40 key luxury, experiential property and our calculations show that the ROE, ROCE, etc., looks quite healthy considering that usually hospitality businesses have a fairly low return, but in our case because of the ability to interact with consumers and sell wine to them, ex-cellar etc., it is showing fairly healthy margins.

**Preet Gajar:** What is the expected top line growth for FY'25 and '26 and like what kind of a role will seasonality play in achieving these numbers?

**Aditya Sekhri:** So, I think like I mentioned FY'25 this year we believe we will be at a similar top line as compared to previous year. We have to make the shortfalls of H1 that we've had due to various disruptions that I just mentioned. So, I think from a guidance perspective, I think it will be very similar to where we were last year and I think our outlook for next year remains similar to our performance in the preceding three financial years, right, where we would be looking to beat the industry average or the industry pertaining growth.

**Moderator:** Next question is from the line of Dr. Harshil Rohit, a retail investor. Please go ahead.

**Dr. Harshil Rohit:** I wanted to ask, can you tell us a little bit more about the collaboration with the Blue Tokai Coffee Roasters?

**Gaurav Sekhri:** We connect very strongly with the Indian homegrown brands. Blue Tokai is one of them. It's a fantastic success story where an Indian brand has grown and is competing with the likes of Starbucks and standing on its own ground and we both felt there's a lot of commonality between the experience of wine as well as coffee, both are very experiential products and we have jointly opened our First Wine and Coffee Bar in Koramangala, Bengaluru. We are testing out the theory that consumers walking into such stores, we should give them the option to either have an experience of a nice glass of wine or a lovely cup of coffee and that is what we are working on right now. The store is already open. And this is sort of our initiative to bring our vineyards and our experience closer to consumers. So, this is an attempt towards that. Because we are not restauraners, bar operators, etc., this is a very nice way for us to collaborate and bring the experience of serving our wines directly to our consumers.

**Dr. Harshil Rohit:** What I wanted to ask specifically was that is this an exclusive relationship? And the second thing is can we cross-sell on all the coffee outlets or is this only a specific one-off coffee bar which we are opening?

- Gaurav Sekhri:** So, firstly, it is an exclusive relationship, and secondly in terms of number of outlets, etc., we are both learning and that is Blue Tokai and us, with this experience. What I can tell you for sure is that not every coffee place will be fit for a wine bar. But yes, we do expect at least maybe two, maybe five such outlets in major cities if the whole format works out.
- Moderator:** We'll take our next question from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.
- Keshav Garg:** Sir, I wanted to understand the import duty on imported wine. How does it compare and sir, as per the price point you were alluding to some that below \$5, above \$5 and so on, so if you could explain the tax regime on imported wine and what kind of a threat is it to the domestic players like us? So, because what I have experienced is that people they want to try imported wine and they don't want to try, like they think that domestic wines not as good. So, what are your thoughts on this?
- Hemant Arora:** Basically, if you see the imported wine, if the CIF price in dollar is below \$5, so there is a customs duty of 150%. So, as of now there is no threat to a domestic industry because we are well poised with the Indian domestic market and the price basically for the Indian consumer is well defined as per current domestic State taxation. But yes, if the CIF price goes above \$5, then there there's a duty reduction on the imported wine. But as of now there is no threat when comparing imported wine to domestic wine in the industry.
- Keshav Garg:** If you could tell us that, sir, what percentage of our total revenue is coming from the HoReCa or B2B segment?
- Hemant Arora:** Basically, it contributed approximately 26% versus the retail is 74%.
- Keshav Garg:** Also sir, if we see that except for Maharashtra and Karnataka where there is some kind of a subsidy, sir, in the rest of the country, the taxation on wine as compared to taxation on other hard liquors like whisky, vodka, rum, is it similar?
- Gaurav Sekhri:** Let me give you some clarity on this. See, the two states which have shown potential to have Vineyards where local farmers can benefit at this point of time is Maharashtra and Karnataka. Therefore, in both these states, they have this policy to be supportive on taxation as well as you have WIPS in Maharashtra to encourage more value addition to happen. Most states, do not have any vested interest in wine. They treat it as any other kind of alco beverage and see it as an opportunity to have revenue for the state. So, their policies are agnostic of where the wine is originating. Does that answer your question?
- Keshav Garg:** So, basically my understanding is except for Maharashtra, Karnataka, the taxation is the same, whether it is wine or it is vodka or whisky, is that correct?
- Gaurav Sekhri:** It is not the same. It varies state-to-state. Each state has a prerogative to do its own taxation structure on wines as well as all other alco beverages.

- Keshav Garg:** So, on an average, except for Maharashtra, Karnataka, let's say in UP, so the taxation on wine and rum and whisky, is it the same?
- Hemant Arora:** No, in wine basically in UP the taxes are excise duty of 25% of MRP, but for the other beverages it's different.
- Keshav Garg:** So, what I am trying to understand is that except for Maharashtra and Karnataka, on an average is the tax incidence on wine higher or lower as compared to others?
- Hemant Arora:** Higher.
- Keshav Garg:** It's higher on wine?
- Gaurav Sekhri:** Taxation on wines is higher compared to Maharashtra, Karnataka but on spirits it is relatively lower, yes.
- Keshav Garg:** So, so in that case, I am talking only about ex-Maharashtra, Karnataka, the rest of the country, when other hard liquors are growing despite the higher tax incidence, then wine, then sir, why is not growing even from such a low base?
- Gaurav Sekhri:** See, wine has grown quite well, and we grew even better than that in the three to four years. This year we have seen some slowdown. I had addressed this question a little bit earlier how in Telangana we saw exceptional growth of wine. So, in India, there is this possibility where you will have some regions and some markets showing exceptional growth and the others for variety of reasons they are showing more sort of tepid growth. The macro factors for wine remain intact. They are linked to per capita income, they're linked to change in lifestyle, it is linked to people becoming more aware and I don't see that changing at all. The occasions for consumption, whether it comes in the form of hotels or restaurants is increasing and modern trade outlet presence is increasing. All of that will benefit wine consumption.
- Keshav Garg:** And lastly, our receivables, how much of our sale is to government corporation like the retailing and distribution is with the government in many states, so how much receivable or how much percentage of our sales is to government corporation?
- Hemant Arora:** Yes, corporations' market and average revenue from the corporations market is 33%.
- Keshav Garg:** Sir, I didn't get it.
- Hemant Arora:** South India, is basically a corporation market, let's say Karnataka, Telangana and Kerala, these markets. Our contribution to these markets are 33%. Overall contribution from corporation is approx. 40%
- Moderator:** We'll take our next question from the line of Sriram R, an individual investor. Please go ahead.

**Sriram R:** When you mentioned that you have 30% share, is it volume share or value share? And overall between imported and Indian origin wines, what would be the split?

**Aditya Sekhri:** It's the volume share of 30% that I mentioned.

**Sriram R:** And so between imported and Indian origin in terms of volumes, what would be the split?

**Aditya Sekhri:** I can't quantify that exact amount in terms of the overall pie, but I believe the total industry of both domestic and imported combined is in the range of Rs. 1,300 to 1,500 crore at the most.

**Gaurav Sekhri:** Let me add a little more clarity to you. To the best of our knowledge, total wine that is sold and consumed in India, I think 70%, 75% is Indian and rest is foreign origin. I hope that answers your question.

**Moderator:** We'll take our next question from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

**V.P. Rajesh:** Two questions. One, is on the EBITDA margin side. Obviously, this first half as you talked about lot of investments, but what kind of steady state EBITDA margin can we expect in the business?

**Gaurav Sekhri:** We were at around 13% EBITDA last year. We expect in the short term to be around the 15% mark.

**V.P. Rajesh:** And when you say short term, you mean this year, or you mean next financial year as well?

**Gaurav Sekhri:** No, I mean more in the next financial year and the year after, that is where we expect ourselves to be in.

**V.P. Rajesh:** But the guidance from Sula was more like about 25% to 30%. So, why is this big difference, any color on that?

**Gaurav Sekhri:** I don't want to comment on Sula's margins, but what I can tell you is that their margin also includes margins coming from the hospitality business where EBITDA margins are higher, rest of the analysis I leave it to you to please do yourself.

**V.P. Rajesh:** My other question was on your CAPEX plan. You talked about hospitality, the result that you're putting up. Beyond that, are there any plans to do any major CAPEX from what you have talked about?

**Gaurav Sekhri:** Beyond what I mentioned, the other big CAPEX for us will be on the hospitality venture, but aside from that I don't see us doing any major CAPEX for three years on the winery and equipment and things like that. With this CAPEX of around Rs. 50 crore, we have become future-ready to of take care of our growth and projections for at least next three to four years.

- V.P. Rajesh:** Just one quick clarification. When you talked earlier about you controlling everything that goes into the land in terms of the fertilizers, etc., question is that it's the land owned by you or that is owned by the farmers and you're leasing it from them?
- Gaurav Sekhri:** We, Fratelli as a company, do not own any vineyard agricultural land.
- Moderator:** We'll take our next question from the line of Preet Gajar from Almondz Global Securities. Please go ahead.
- Preet Gajar:** I just want some clarification on the results shown in the BSE website as well as in the presentation numbers given. So, in the presentation numbers, 90 crore is given as a half yearly sales and in the results which are given on the BSE website, standalone 104 crore or something is there, and it is sales from the agro commodities. So, we have considered sales of wine as agro commodities right now?
- Gaurav Sekhri:** You just please recheck the numbers. I think there is some difference that you are seeing on account of standalone and consolidated I believe. The standalone number is the same which is 90 crore for H1, that is the standalone Fratelli Wine sales. The other 16-odd crore that you are seeing is from the holdco, which is in the process of shutting down its active trading business and that sale number will be zero progressively.
- Preet Gajar:** So, entirely whatever comparative numbers you have given in the presentation, we should consider those, right?
- Gaurav Sekhri:** Yes, please.
- Preet Gajar:** Sir, I just wanted to understand about your trade receivables. Rs.144 crore trade receivables are there. So, means these are looking on the higher side. So, means why such a high trade receivables are there?
- Gaurav Sekhri:** Again, I think, sir, Rs. 144 crore is including the trade receivables of the holdco and that is why this number is seeming very high to you.
- Preet Gajar:** So, means when actual, everything goes down, that means drawdown is happening, so what kind of trade receivables will be there? And also, is on the borrowings. You have said around Rs. 20 crore you have borrowed in the first half.
- Gaurav Sekhri:** See in regards to the holdco operations as mentioned, I think by Q3 it will reach to a complete halt, no employees, no activity and no business, it will just purely be a holdco. Fratelli standalone receivables are at around Rs. 100 crore today.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you.
- Gaurav Sekhri:** Thank you very much everyone for participating on our call today. On behalf of Fratelli Vineyards and my colleagues here, I would like to express my

thanks that you have shown interest in our company, and I wish you a wonderful day.

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