RESULT UPDATE

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RADICO KHAITAN LTD

PRICE: RS.220 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.236 **FY19E PE: 22.4X**

Radico Khaitan Ltd (RKL) Q2FY18 results were ahead of our estimates. The net revenue for the quarter grew by 0.6% yoy to Rs 4.48 bn and was ahead of our estimates, led by above expected volume in the quarter, which grew by 4.3% to 4.7 mn cases. The impact of recent highway liquor ban started to normalize in Q2FY18 after the Supreme Court clarification which allowed highways liquor stores within municipal areas. EBITDA margins remain strong with 200 bps yoy improvement to 14.7% (Vs estimates of 13%) led by better product mix, lower raw material prices and reduction in selling expenses. The company's focus on reducing debt resulted in 14% yoy decline in interest expenses which resulted in 27% yoy growth in PAT to Rs 286 mn (vs estimates of Rs 226 mn). The management has maintain positive outlook on volume growth for H2FY18 along with sustainable margins led by increasing focus on prestige and above segment and price increase in southern states. We have upgraded our earning's estimates for FY18E and FY19E factoring in reduction in impact of highway ban and better margins profile. The stock is trading at PE of 29.1x/22.4x on FY18/FY19 revised EPS of Rs 7.6/9.8. We assign Accumulate (Vs Buy) rating on the stock with target price of Rs 236 (Vs Rs 200 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Revenue	16,799	17,627	19,191
Growth (%)	8.9	4.9	8.9
EBITDA	2,121	2,465	2,801
EBITDA margin (%)	12.6	14.0	14.6
PBT	1,097	1,503	1,947
PAT	806	1,007	1,308
EPS	6.1	7.6	9.8
EPS Growth (%)	5	25	30
CEPS (Rs)	9	11	13
Book value (Rs/share)	77	84	92
Dividend per share (Rs)	0.9	1.2	1.4
ROE (%)	8.3	9.4	11.2
Core ROCE (%)	9.2	10.8	12.7
Net cash (debt)	(7,700)	(6,273)	(5,312)
NW Capital (Days)	195	179	172
P/E (x)	36.3	29.1	22.4
P/BV (x)	2.8	2.6	2.4
EV/EBITDA (x)	17.4	14.4	12.3
EV/Sales (x)	2.2	2.0	1.8

Source: Company, Kotak Securities – Private Client Research

Result Table

Year to March (INR Mn.)	Q2FY18	Q2FY17	% Chg	Q1FY18	% Chg
Net Revenues	**4,482**	**4,454**	**0.6**	**4,113**	**9.0**
Raw Materials Cost	2,385	2,454	(2.8)	2,239	6.6
Gross Profit	2,097	2,000	4.8	1,874	11.9
Employee Expenses	392	342	14.6	340	15.3
Selling & Admin exp	540	583	(7.3)	410	31.9
Other Expenses	507	507	(0.0)	505	0.4
Operating Expenses	3,825	3,886	(1.6)	3,493	9.5
EBITDA	**657**	**568**	**15.8**	**620**	**6.1**
EBITDA margin	14.7%	12.7%		15.1%	
Depreciation	102	105	(3.1)	102	0.5
Other income	51	44	15.6	53	(2.9)
Net finance expense	177	206	(14.3)	189	(6.3)
Profit before tax	430	301	43.0	382	12.5
Provision for taxes	144	76	90.6	126	14.7
Reported net profit	**286**	**225**	**27.1**	**257**	**11.4**
As % of net revenues					
COGS	53.2	55.1		54.4	
Employee cost	8.7	7.7		8.3	
Selling & Admin exp	12.1	13.1		10.0	
Other Expenses	11.3	11.4		12.3	
Operating expenses	85.3	87.3		84.9	
EBITDA	14.7	12.7		15.1	
Reported net profit	6.4	5.1		6.2	
Tax rate (% of PBT)	33.5	25.1		32.8	

Source: Company

Q2FY18 revenue ahead of our estimates

Net revenue was flattish yoy at Rs 4.48 bn (Vs estimates of Rs 4.33 bn) led by 4.3% volume growth in IMFL segment. Prestige segment volume grew by 6.5% yoy while regular segment volume grew by 3.5% yoy and was ahead of our estimates. In terms of revenue mix IMFL contributed 77.3% of net revenue with prestige segment contributed 44.5% of the revenue and 27.7% of the volume in the quarter

The volume in the quarter revived after a decline in Q1FY18 as the impact of recent highway liquor ban started to normalize in Q2FY18. Earlier in July 2017, the Supreme Court had clarified that the liquor ban on highways does not apply to licensed establishments such as licenced bars and beverages outlets falling within municipal areas. The decision helped in reopening of licensed bars and hotel in the city municipal areas across country and positively impacted RKL performance.

EBITDA grew by 15.8% yoy on improved margins

EBITDA for the quarter grew by 15.8% yoy with EBITDA margins at 14.7% (Vs estimates of 13%), improved by 200 bps yoy led by improvement in gross margins and reduction in selling expenses. The volume contribution from high margin prestige and above segment was 27.7% as against 26.8% last year which positively impacted margins. Besides this, lower raw material prices (ENA) and reduction in packaging cost also helped in improving gross margins. As per company, ENA prices have remained stable during the first half of FY2018 and are expected to soften in the near term due to a better monsoon season and early sugar cane crushing by UP sugar mills. The company's selling expenses also reduced by 7.3% yoy due to cost control measures during the highway liquor ban period. PAT for the quarter grew by 27% yoy to Rs 286 mn Vs estimates of Rs 226 mn led by better margins and 14.3% yoy decline in finance expenses. The finance expenses reduced on lower net debt, which now stands at Rs 7.13 bn (Q2FY18) Vs Rs 7.9 bn (Q4FY17 end).

Target for 5% revenue growth in FY18 with over 14% EBITDA margins

The company is targeting 5% revenue growth with over 14% EBITDA margins in FY18. The margins are expected to remain strong on improved product mix and price increases across states. RKL has received price increases in the states of Andhra Pradesh (effective from 20th September, 2017) and Kerala (effective from Q3 FY2018) which will be positive for its margins in coming quarter.

Outlook and valuation

We recommend ACCUMULATE on Radico Khaitan Ltd with a price target of Rs.236

The management has maintain positive outlook on volume growth for H2FY18 along with sustainable margins led by increasing focus on prestige and above segment and price increase in southern states. We have upgraded our earning's estimates for FY18E and FY19E factoring in reduction in impact of highway ban and better margins profile. We have assumed 3.3% growth in FY18 volume (Vs earlier estimates of 0.3% growth) with better EBITDA margins based on H1FY18 performance where the company reported 14.7% EBITDA margins. The stock is trading at PE of 29.1x/22.4x on FY18/FY19 revised EPS of Rs 7.6/9.8. After strong run up in stock price and limited upside, we assign ACCUMULATE (Vs Buy) rating on the stock with target price of Rs 236 (Vs Rs 200 earlier), valued at 24x FY19E EPS.

Change in Estimates

Particulars (Rs mn)	Previous estimates		Revised estimates		% Change	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	17165	18622	17627	19191	2.7	3.1
EBITDA margin (%)	13.1	13.8	14.0	14.6	90 bps	80 bps
PAT	845	1124	1007	1308	19.2	16.4
EPS (Rs)	6.4	8.4	7.6	9.8	19.2	16.4

Source: Kotak Securities - Private Client Research

Rating Scale

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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