

Strong margins in challenging demand scenario...

Radico Khaitan reported strong margins in Q1FY21 in spite of a decline in revenues. Net revenues for Q1FY21 declined 34% YoY to ₹409 crore due to 43% decline in IMFL volumes to 3.54 million cases. Prestige and above segment volumes declined 47% while regular segment volumes declined 41% YoY. Gross margin increased 660 bps YoY to 54.6%. In spite of negative operating leverage, the company reported a 230 bps YoY improvement in EBITDA margin to 18.4%, which restricted the decline in EBITDA to 25%. Consequently, PAT declined 20% YoY to ₹ 44 crore owing to lower tax rate (24% in Q1FY21 vs. 34% in Q1FY20).

Better product/state mix aid improvement in margins

The company is seeing a good recovery as June sales were only down ~10% YoY and the company expects to reach normal revenue trajectory in H2FY21. On profitability front, gross margin expanded owing to combination of factors like better price realisation and favourable state and product mix and price increase in key southern state of Telangana. Benign input cost and higher product realisation are expected to aid in gross margin improvement and stringent cost control and judicious spend on sales promotion will enable the company to improve EBITDA margin over next two years.

New product launches to focus on premiumisation

RKL has an established brand portfolio with brands like Magic Moments vodka (62% share in overall Vodka market) and Morpheus brandy. The company has been constantly launching new products focussed on the prestige and above segment with new product launches like 8PM Premium Black whisky, Jaisalmer Indian Craft gin, Rampur Indian Single Malt, Morpheus Blue Brandy, 1965 rum and Electra in ready to drink category. The company is planning to launch more premium products in the whisky segment post normalisation of the industry scenario, which has been impacted due to Covid-19 pandemic.

Valuation & Outlook

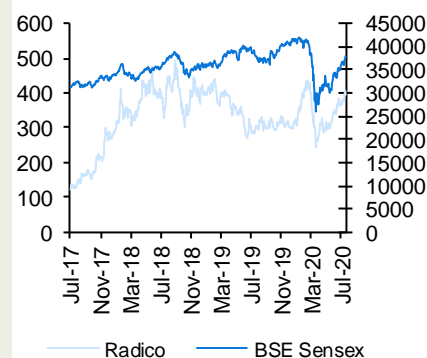
In a tough market scenario, Radico continues to outperform peers. For Q1FY21, the management indicated industry volumes were down more than 50% due to lockdown in April, May, whereas Radico volumes fell 44%. The company's premiumisation trend continued with Prestige & above share rising to 29% in FY20 from 28.3% in FY19 and over the medium to longer term the company is planning to introduce premium products. The company has constantly reduced debt from ₹ 950 crore in FY16 to ₹ 382 crore in FY20, enabling it to report higher profitability over the last few years. In Q1FY21, RKL further reduced debt by ~ ₹ 120 crore due to strong overdue receivable collection. With continued focus on brand development, newer premium IMFL launches and strong distribution network built over the years, RKL is poised to enhance its financial performance. We maintain our **BUY** rating on the stock with a revised target price of ₹ 460/share (~19x FY22E EPS).



Stock data

Particulars	Amount
Market Capitalisation (₹cr)	5302
52 Week High / Low (₹)	439/220
Promoter Holding (%)	40.3
FII Holding (%)	18.6
DII Holding (%)	15.4
Dividend Yield (%)	0.4

Price Performance



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Key Financial Summary

₹ crore	FY 18	FY 19	FY 20	FY 21E	FY 22E	CAGR
Net Sales	1,822.8	2,096.9	2,427.0	2,417.0	2,864.8	8.6%
EBITDA	269.7	350.3	371.8	384.3	487.0	14.4%
PAT	124.0	194.1	229.1	235.5	321.5	18.5%
P/E (x)	42.0	26.8	22.7	22.1	16.2	
M.C ap/Sales (x)	2.9	2.5	2.1	2.2	1.8	
RoCE (%)	14.3	18.3	16.1	16.2	19.6	
RoE (%)	10.7	14.8	16.4	13.4	15.6	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)/ (₹crore)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,096.9	2,427.0	2,417.0	2,864.8
Growth (%)	15.0	15.7	-0.4	18.5
COGS	1,035.4	1,255.7	1,220.6	1,432.4
Gross Profit	1,061.6	1,171.4	1,196.4	1,432.4
Gross Profit Margins (%)	50.6	48.3	49.5	50.0
Employee Expenses	171.4	186.1	193.4	212.0
SG&A	138.5	311.3	304.5	361.0
Other Expenditure	401.4	302.2	314.2	372.4
Total Operating Expenditure	1,746.6	2,055.2	2,032.7	2,377.8
EBITDA	350.3	371.8	384.3	487.0
Growth (%)	29.9	6.1	3.4	26.7
Interest	35.5	31.6	24.8	10.9
Depreciation	42.4	52.5	59.2	63.2
Other Income	13.3	9.2	12.1	14.3
PBT before Exceptional Items	285.7	296.9	312.4	427.2
Less: Exceptional Items	0.0	24.2	0.0	0.0
PBT after Exceptional Items	285.7	272.7	312.4	427.2
Total Tax	97.6	45.2	78.6	107.5
PAT	188.1	227.5	233.8	319.7
Profit from Associates	6.1	1.6	1.7	1.8
Adjusted PAT	194.1	229.1	235.5	321.5
EPS Growth (%)	56.6	18.0	2.8	36.5
EPS	14.6	17.2	17.7	24.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March) (₹crore)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	194.1	229.1	235.5	321.5
Add: Depreciation & Amortization	42.4	52.5	59.2	63.2
Add: Interest Paid	35.5	31.6	24.8	10.9
Net Increase in Current Assets	-41.1	-196.1	1.6	-106.9
Net Increase in Current Liability	13.9	-31.2	4.3	52.8
Others	63.9	-26.3	0.0	0.0
CF from Operating activities	308.7	59.7	325.3	341.5
(Purchase)/Sale of Fixed Assets	-71.7	-71.8	-70.0	-70.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	54.2	-31.0	-3.6	-100.0
Others	-135.2	-52.9	-150.2	0.0
CF from Investing activities	-81.0	-83.9	-153.8	-171.8
(inc)/Dec in Loan	-199.0	75.7	-88.5	-150.0
Dividend & Dividend tax	-19.3	-19.3	-19.3	-19.3
Less: Interest Paid	-35.5	-31.6	-24.8	-10.9
Other	21.4	0.0	0.0	0.0
CF from Financing activities	-232.4	24.7	-132.6	-180.2
Net Cash Flow	-4.7	0.6	38.9	-10.5
Cash and Cash Equivalent at the	22.4	17.7	18.2	57.1
Cash	17.7	18.2	57.1	46.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	26.7	26.7	26.7	26.7
Reserve and Surplus	1,288.3	1,516.2	1,732.4	2,034.6
Total Shareholders funds	1,314.9	1,542.9	1,759.1	2,061.3
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	323.3	398.9	310.4	160.4
Deferred Tax Liability	104.1	78.5	0.0	0.0
Long-Term Provisions	10.4	11.1	11.3	11.5
Other Non Current Liabilities	0.7	5.3	5.4	5.5
Source of Funds	1,753.3	2,036.7	2,086.2	2,238.8
Gross Block - Fixed Assets	868.0	950.0	1,020.0	1,090.0
Accumulated Depreciation	154.1	206.6	265.7	329.0
Net Block	713.9	743.4	754.3	761.0
Capital WIP	16.0	18.1	18.1	18.1
Fixed Assets	729.9	761.5	772.3	779.1
Investments	163.4	194.4	197.9	297.9
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Deferred Tax Assets	0.0	0.0	0.0	0.0
Other non-Current Assets	111.9	104.9	107.0	109.1
Inventory	359.7	374.2	364.2	431.7
Debtors	641.8	823.1	827.7	863.4
Loans and Advances	46.7	40.7	41.1	41.6
Other Current Assets	159.6	165.8	169.2	172.5
Cash	17.7	18.2	57.1	46.6
Total Current Assets	1,225.4	1,422.1	1,459.4	1,555.8
Creditors	244.8	264.2	264.9	314.0
Provisions	68.4	52.8	53.8	54.9
Other Current Liabilities	164.1	129.1	131.7	134.3
Total Current Liabilities	477.3	446.1	450.4	503.2
Net Current Assets	748.1	976.0	1,009.0	1,052.6
Application of Funds	1,753.3	2,036.7	2,086.2	2,238.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	14.6	17.2	17.7	24.1
BV per share	98.6	115.7	131.9	154.5
Cash per Share	1.3	1.4	4.3	3.5
Dividend per share	1.4	1.4	1.4	1.4
Operating Ratios (%)				
Gross Profit Margins	50.6	48.3	49.5	50.0
EBITDA margins	16.7	15.3	15.9	17.0
PAT Margins	9.3	10.4	9.7	11.2
Inventory days	62.6	56.3	55.0	55.0
Debtor days	111.7	123.8	125.0	110.0
Creditor days	42.6	39.7	40.0	40.0
Asset Turnover	2.4	2.6	2.4	2.6
Return Ratios (%)				
RoE	14.8	16.4	13.4	15.6
RoCE	18.3	16.1	16.2	19.6
RoIC	18.0	16.1	16.3	19.6
Valuation Ratios (x)				
P/E	26.8	22.7	22.1	16.2
EV / EBITDA	15.7	15.0	14.2	10.9
EV / Net Sales	2.6	2.3	2.3	1.9
Market Cap / Sales	2.5	2.1	2.2	1.8
Price to Book Value	4.0	3.4	3.0	2.5
Solvency Ratios				
Debt / EBITDA	0.9	1.1	0.8	0.3
Debt / Equity	0.2	0.3	0.2	0.1
Current Ratio	2.5	3.1	3.1	3.0
Quick Ratio	1.8	2.3	2.3	2.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



PankajPandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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