

Exports pick-up leads to positive volume growth

Radico Khaitan reported volume growth of 5% YoY in Q2FY21 (in spite of 9-10% de-growth for the liquor industry). Exports clocked 70% growth reaching 8-9% of revenues (ex-exports flattish volume growth). Subsequently, revenues grew 11% to ₹ 630 crore. Gross margin increased 90 bps to 48.9% owing to better state & product mix and price hike in Telangana. Subsequently, the company reported 180 bps expansion in EBITDA margin at 17% supported by lower employee expense. Consequently, EBITDA grew 24% YoY to ₹ 107 crore. Higher other income in Q2FY21 and exceptional expense in the base quarter led PBT after extraordinary expense to grow 50% to ₹ 92 crore. Further deferred tax benefit in the base quarter led net profit to decline 6% to ₹ 75 crore.

Volume growth seen in volatile environment

Both the P&A and popular segment reported good volumes (4% and 5%, respectively). Also MoM, the volume growth trajectory saw increasing trend. However, the growth was primarily in fewer states like Uttar Pradesh, Uttarakhand, Telangana, Karnataka while other states like Maharashtra, Assam, Odisha, Rajasthan, AP, etc, continued to reel under pressure (either due to excess taxes or continued closure of on-trade channels). As per the management, Radico was able to gain market share in most states in Q2. The company also saw a healthy uptick in premiumisation trend and expects it to increase further during the festive season in Q3.

Newer launches to help company tap premium segments

Premium variants of successful brands such as 8PM whisky (8PM platinum), Morpheus brandy (Morpheus Blue), Magic Moments (better canister packaging, Magic Moments Verve) has helped the company to explore newer segments (Prestige and Above whisky) and also tap different consumer palates. Radico is planning to launch more premium products in the whiskey segment. Launches in super-premium segments (Jaisalmer Indian Craft gin, Rampur Indian Single Malt) are expected to help the company grow in exports and the global travel retail markets.

Valuation & Outlook

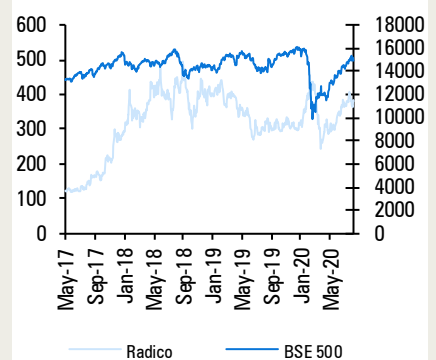
Radico continues to widen its volume growth performance over other industry players. It is on the cusp of another breakthrough (post domination of domestic vodka market volumes) with its focus on the bigger domestic P&A whisky segment (that brings it into direct competition with USL and Pernod Ricard) by launching more brands in the segment (8 PM platinum to reach 1 million cases). Exports market (8-9% of revenues) and CSD (8-9% of revenue), present other opportunities to grow its premium products. The company is also expected to become debt free in a year or two (post that expect higher dividend payout and buybacks). We maintain our **BUY** rating on the stock with a revised target price of ₹ 550/share (~22x FY22E EPS).



Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	5302
52 Week High / Low (₹)	472/220
Promoter Holding (%)	40.3
FII Holding (%)	18.0
DII Holding (%)	16.6
Dividend Yield (%)	0.4

Price Performance



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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR
Net Sales	1,822.8	2,096.9	2,427.0	2,392.6	2,826.3	7.9%
EBITDA	269.7	350.3	371.8	406.7	497.4	15.7%
PAT	124.0	194.1	229.1	252.2	329.1	19.9%
P/E (x)	43.0	27.5	23.3	21.2	16.2	
M.Cap/Sales (x)	2.9	2.5	2.2	2.2	1.9	
RoCE (%)	14.3	18.3	16.1	17.1	19.8	
RoE (%)	10.7	14.8	16.4	14.2	15.8	

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	2,392.6	2,826.3	
Growth (%)	15.0	15.7	-1.4	18.1	
COGS	1,035.4	1,255.7	1,232.2	1,427.3	
Gross Profit	1,061.6	1,171.4	1,160.4	1,399.0	
Gross Profit Margins (%)	50.6	48.3	48.5	49.5	
Employee Expenses	171.4	186.1	167.5	192.2	
SG&A	138.5	311.3	287.1	356.1	
Other Expenditure	401.4	302.2	299.1	353.3	
Total Operating Expenditure	1,746.6	2,055.2	1,985.9	2,328.9	
EBITDA	350.3	371.8	406.7	497.4	
Growth (%)	29.9	6.1	9.4	22.3	
Interest	35.5	31.6	24.8	10.9	
Depreciation	42.4	52.5	59.2	63.2	
Other Income	13.3	9.2	12.0	14.1	
PBT before Exceptional Items	285.7	296.9	334.7	437.4	
Less: Exceptional Items	0.0	24.2	0.0	0.0	
PBT after Exceptional Items	285.7	272.7	334.7	437.4	
Total Tax	97.6	45.2	84.2	110.1	
PAT	188.1	227.5	250.5	327.3	
Profit from Associates	6.1	1.6	1.7	1.8	
Adjusted PAT	194.1	229.1	252.2	329.1	
EPS Growth (%)	56.6	18.0	10.1	30.5	
EPS (Adjusted)	14.6	19.0	18.9	24.7	

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	1,749.1	2,059.0	
Total Shareholders funds	1,314.9	1,542.9	1,775.8	2,085.6	
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	2,102.9	2,263.1	
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	360.5	425.9	
Debtors	641.8	823.1	819.4	851.8	
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	83.2	84.2	
Total Current Assets	1,225.4	1,422.1	1,473.4	1,575.9	
Creditors	244.8	264.2	262.2	309.7	
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	447.7	498.9	
Net Current Assets	748.1	976.0	1,025.7	1,077.0	
Application of Funds	1,753.3	2,036.7	2,102.9	2,263.1	

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	252.2	329.1	
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	13.6	-101.5	
Net Increase in Current Liabilities	13.9	-31.2	1.6	51.2	
Others	63.9	-26.3	0.0	0.0	
CF from Operating activities	308.7	59.7	351.4	353.0	
(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	64.9	1.0	
Cash and Cash Equivalent at the	22.4	17.7	18.2	83.2	
Cash	17.7	18.2	83.2	84.2	

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	18.9	24.7	
BV per share	98.6	115.7	133.1	156.3	
Cash per Share	1.3	1.4	6.2	6.3	
Dividend per share	1.4	1.4	1.4	1.4	
Operating Ratios (%)					
Gross Profit Margins	50.6	48.3	48.5	49.5	
EBITDA margins	16.7	15.3	17.0	17.6	
PAT Margins	9.3	10.4	10.5	11.6	
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	2.3	2.6	
Return Ratios (%)					
RoE	14.8	16.4	14.2	15.8	
RoCE	18.3	16.1	17.1	19.8	
RoIC	18.0	16.1	17.5	20.2	
Valuation Ratios (x)					
P/E	27.5	23.3	21.2	16.2	
EV / EBITDA	16.1	15.3	13.6	10.8	
EV / Net Sales	2.7	2.3	2.3	1.9	
Market Cap / Sales	2.5	2.2	2.2	1.9	
Price to Book Value	4.1	3.5	3.0	2.6	
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%



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