

Focus on premiumisation aiding margin profile...

Radico Khaitan (RKL) reported volume growth of ~1% YoY in Q3FY21 compared to industry de-growth of 1%. Prestige and above segment continued to perform well with volume growth of 5% YoY. RKL reported revenue growth of 5.6% YoY to ₹ 684 crore. EBITDA grew 21% YoY to ₹ 124.6 crore driven by improved margin profile. EBITDA margin expanded 235 bps from 15.8% to 18.1% due to gross margin improvement and cost rationalisation. Lower Interest cost and higher other income enabled the company to report 45% YoY growth in net profit to ₹ 80.5 crore.

Strong P&A performance, buoyant exports aiding growth

RKL has been able to remain on a positive volume growth trajectory mainly driven by 5% volume growth in its Prestige and above brand volumes. The regular segment volumes declined in line with industry trend by 1% YoY. The company's export business has shown strong traction in YTD FY21 with growth of ~ 80% YoY. Currently, it contributes 6% of IMFL volumes and 7.5% of IMFL revenues. Both P&A & exports have better margins than the regular segment. The company is continuously focusing on premiumisation of its product portfolio (P&A segment volumes share increased 130 bps YoY to 30.7% in Q3FY21). This has enabled it to improve its margin profile. RKL has benefitted from improved price realisation due to a better product mix, strong exports and price increases in certain states.

New launches, domestic footprint expansion of super premium segments to spur revenue growth

The company has successfully launched 8 pm Premium black whisky and also introduced super premium brands like Jaisalmer gin and Rampur Indian single malt whisky in the domestic market. The management is now gearing up to enhance its footprint for super premium brands in the domestic markets by tapping major metro markets and subsequently building a pan-India presence. RKL is planning to launch more premium products in the whiskey segment. Also, launches in super-premium segments are expected to help the company grow in exports and the global travel retail markets as the situation normalises post pandemic.

Valuation & Outlook

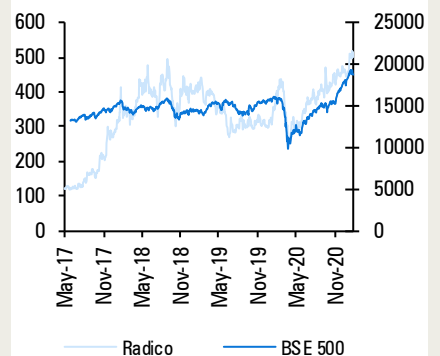
Radico continues to widen its volume growth performance over other industry players. It is on the cusp of another breakthrough (post dominance of domestic vodka market volumes) with its focus on the bigger domestic P&A whisky segment by launching more brands in the segment. Exports market (8% of revenues) 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. We maintain our **BUY** rating on the stock with a revised target price of ₹ 580/share (~17x FY22E EPS).



Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	6503
52 Week High / Low (₹)	529/220
Promoter Holding (%)	40
FII Holding (%)	18
DII Holding (%)	15
Dividend Yield (%)	0

Price Performance



Key Risks to our call

- 1) Hardening of raw material prices
- 2) Continued social distancing norms in restaurants, pubs and social events

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR
Net Sales	2,096.9	2,427.0	2,391.8	2,829.8	3,370.3	8.0%
EBITDA	350.3	371.8	428.1	523.5	657.2	18.7%
PAT	194.1	229.1	268.2	348.7	455.4	23.4%
P/E (x)	31.2	26.4	22.6	17.4	13.3	
M.Cap/Sales (x)	2.9	2.5	2.5	2.1	1.8	
RoCE (%)	18.3	16.1	18.0	20.6	23.5	
RoE (%)	14.8	16.4	15.0	16.4	17.8	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)/ (₹ crore)	FY20	FY21E	FY22E	FY23E	
Total Operating Income	2,427.0	2,391.8	2,829.8	3,370.3	
Growth (%)	15.7	-1.5	18.3	19.1	
COGS	1,255.7	1,184.0	1,414.9	1,685.1	
Gross Profit	1,171.4	1,207.9	1,414.9	1,685.1	
Gross Profit Margins (%)	48.3	50.5	50.0	50.0	
Employee Expenses	186.1	177.0	198.1	219.1	
SG&A	311.3	303.8	353.7	421.3	
Other Expenditure	302.2	299.0	339.6	387.6	
Total Operating Expenditure	2,055.2	1,963.7	2,306.3	2,713.1	
EBITDA	371.8	428.1	523.5	657.2	
Growth (%)	6.1	15.1	22.3	25.5	
Interest	31.6	24.8	10.9	0.7	
Depreciation	52.5	59.2	63.2	67.3	
Other Income	9.2	12.0	14.1	16.9	
PBT before Exceptional Items	296.9	356.1	463.5	606.1	
Less: Exceptional Items	24.2	0.0	0.0	0.0	
PBT after Exceptional Items	272.7	356.1	463.5	606.1	
Total Tax	45.2	89.6	116.7	152.5	
PAT	227.5	266.5	346.9	453.5	
Profit from Associates	1.6	1.7	1.8	1.9	
Adjusted PAT	229.1	268.2	348.7	455.4	
EPS Growth (%)	18.0	17.0	30.0	30.6	
EPS (Adjusted)	19.0	20.1	26.1	34.1	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	26.7	26.7	26.7	26.7	
Reserve and Surplus	1,516.2	1,765.1	2,094.5	2,530.6	
Total Shareholders funds	1,542.9	1,791.8	2,121.2	2,557.3	
Minority Interest	0.0	0.0	0.0	0.0	
Total Debt	398.9	310.4	160.4	10.4	
Deferred Tax Liability	78.5	0.0	0.0	0.0	
Long-Term Provisions	11.1	11.3	11.5	11.8	
Other Non Current Liabilities	5.3	5.4	5.5	5.6	
Source of Funds	2,036.7	2,118.9	2,298.6	2,585.1	
Gross Block - Fixed Assets	950.0	1,020.0	1,090.0	1,160.0	
Accumulated Depreciation	206.6	265.7	329.0	396.2	
Net Block	743.4	754.3	761.0	763.8	
Capital WIP	18.1	18.1	18.1	18.1	
Fixed Assets	761.5	772.3	779.1	781.8	
Investments	194.4	197.9	297.9	397.9	
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	104.9	107.0	109.1	111.3	
Inventory	374.2	360.4	426.4	507.9	
Debtors	823.1	819.1	852.8	1,015.7	
Loans and Advances	40.7	41.1	41.6	42.0	
Other Current Assets	165.8	169.2	172.5	176.0	
Cash	18.2	99.5	118.5	114.9	
Total Current Assets	1,422.1	1,489.3	1,611.8	1,856.4	
Creditors	264.2	262.1	310.1	369.3	
Provisions	52.8	53.8	54.9	56.0	
Other Current Liabilities	129.1	131.7	134.3	137.0	
Total Current Liabilities	446.1	447.6	499.3	562.3	
Net Current Assets	976.0	1,041.7	1,112.5	1,294.1	
Application of Funds	2,036.7	2,118.9	2,298.6	2,585.1	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March) (₹ crore)	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	229.1	268.2	348.7	455.4	
Add: Depreciation & Amortization	52.5	59.2	63.2	67.3	
Add: Interest Paid	31.6	24.8	10.9	0.7	
Net Increase in Current Assets	-196.1	14.0	-103.5	-248.2	
Net Increase in Current Liabilities	-31.2	1.5	51.7	63.0	
Others	-26.3	0.0	0.0	0.0	
CF from Operating activities	59.7	367.7	371.0	338.2	
(Purchase)/Sale of Fixed Assets	-71.8	-70.0	-70.0	-70.0	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-31.0	-3.6	-100.0	-100.0	
Others	-52.9	-150.2	0.0	0.0	
CF from Investing activities	-83.9	-153.8	-171.8	-171.8	
(inc)/Dec in Loan	75.7	-88.5	-150.0	-150.0	
Dividend & Dividend tax	-19.3	-19.3	-19.3	-19.3	
Less: Interest Paid	-31.6	-24.8	-10.9	-0.7	
Other	0.0	0.0	0.0	0.0	
CF from Financing activities	24.7	-132.6	-180.2	-170.0	
Net Cash Flow	0.6	81.2	19.0	-3.6	
Cash and Cash Equivalent at the	17.7	18.2	99.5	118.5	
Cash	18.2	99.5	118.5	114.9	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
Reported EPS	17.2	20.1	26.1	34.1	
BV per share	115.7	134.3	159.0	191.7	
Cash per Share	1.4	7.5	8.9	8.6	
Dividend per share	1.4	1.4	1.4	1.4	
Operating Ratios (%)					
Gross Profit Margins	48.3	50.5	50.0	50.0	
EBITDA margins	15.3	17.9	18.5	19.5	
PAT Margins	10.4	11.2	12.3	13.5	
Inventory days	56.3	55.0	55.0	55.0	
Debtor days	123.8	125.0	110.0	110.0	
Creditor days	39.7	40.0	40.0	40.0	
Asset Turnover	2.6	2.3	2.6	2.9	
Return Ratios (%)					
RoE	16.4	15.0	16.4	17.8	
RoCE	16.1	18.0	20.6	23.5	
RoIC	16.1	18.6	21.5	24.2	
Valuation Ratios (x)					
P/E	26.4	22.6	17.4	13.3	
EV / EBITDA	17.3	14.6	11.6	9.0	
EV / Net Sales	2.6	2.6	2.1	1.8	
Market Cap / Sales	2.5	2.5	2.1	1.8	
Price to Book Value	3.9	3.4	2.9	2.4	
Solvency Ratios					
Debt / EBITDA	1.1	0.7	0.3	0.0	
Debt / Equity	0.3	0.2	0.1	0.0	
Current Ratio	3.1	3.1	3.0	3.1	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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