

Premium volumes continue to outshine popular...

Radico Khaitan (RKL) in Q4FY21 reported volume growth of 8% (ex-AP impact, double digit volume growth). For FY21, Radico's volumes have de-grown 8% (compared to a mid-teen de-growth for liquor industry). In Q4FY21, Prestige and Above segment volumes (28% of overall IMFL volumes) grew 15%. RKL reported revenue growth of 19% YoY to ₹ 695 crore. EBITDA grew 23% YoY to ₹ 101 crore driven by improved margin profile. EBITDA margin expanded 50 bps from 14.1% to 14.6% due to gross margin improvement and cost rationalisation. Lower tax rate and exceptional expense of ₹ 8 crore in the base quarter enabled the company to report 78% YoY growth in net profit to ₹ 74 crore.

ENA backward integration impedes raw material inflation

The liquor industry has been facing hardening of raw material prices in the past two to three years (ENA, glass). While on glass the management expects prices to remain flat, on the ENA front, inflation is still uncertain, buoyed by the active uptake of ethanol by OMCs (blending target of 20% by 2025). Radico utilises its own distilled ENA for 50% of its volumes, which lowers the inflation seen by other liquor players (bigger asset light players). The management expects a 50 bps improvement in EBITDA margins, going ahead, which, along-with industry leading topline performance, would translate into stronger cash flow generation.

Strategy primed to enter super-premium whisky category

RKL has been launching brand extensions such as 8 PM premium black whisky, which helps it to push newer volumes into P&A fold (clocked 1 million cases mark in FY21). Further, the company intends to tap into the super-premium category (₹ 1500-2000 retail price category) and also introduce luxury brands such as Jaisalmer gin and Rampur single malt (₹ 6500-8000 retail price) in the domestic market. 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.

Valuation and Outlook

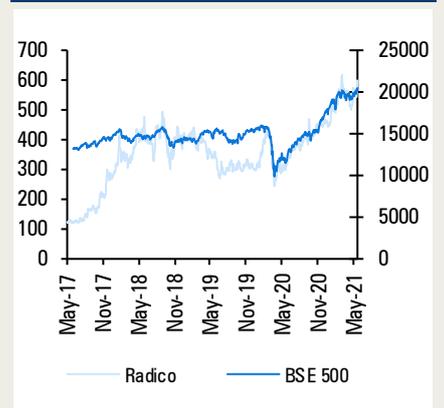
RKL has been continuously reducing its overall net-debt from peak of ~₹ 950 crore to current ~₹ 198 crore and generated ~₹ 380 crore of CFO in FY21. The management also intends to outsource its bottling of popular segment volumes, which would lower its incremental investment into increasing capacity, thus improving its return ratios. Radico continues to widen its volume growth performance over other industry players while its increased brand presence in higher categories is helping it to instil longevity into Radico's premiumisation journey. We maintain our **BUY** rating on the stock with a revised target price of ₹ 750/share (~22x FY23E EPS, earlier ₹ 580).



Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	6503
52 Week High / Low (₹)	650/322
Promoter Holding (%)	40.3
FII Holding (%)	19.5
DII Holding (%)	15.4
Dividend Yield (%)	0.4

Price Performance



Key risks to our call

- Hardening of raw material prices
- 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	2,418.1	2,924.9	3,543.3	9.8%
EBITDA	350.3	371.8	409.0	506.0	644.9	16.7%
PAT	194.1	229.1	277.2	341.2	449.4	22.0%
P/E (x)	36.8	31.1	25.8	20.9	15.9	
M.Cap/Sales (x)	3.4	2.9	3.0	2.4	2.0	
RoCE (%)	18.3	16.1	17.3	19.4	22.1	
RoE (%)	14.8	16.4	15.5	16.1	17.7	

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	2,418.1	2,924.9	3,543.3	
Growth (%)	15.7	-0.4	21.0	21.1	
COGS	1,255.7	1,202.4	1,491.7	1,807.1	
Gross Profit	1,171.4	1,215.7	1,433.2	1,736.2	
Gross Profit Margins (%)	48.3	50.3	49.0	49.0	
Employee Expenses	186.1	176.3	193.0	212.6	
SG&A	311.3	316.5	374.4	453.5	
Other Expenditure	302.2	313.9	359.8	425.2	
Total Operating Expenditure	2,055.2	2,009.2	2,418.9	2,898.4	
EBITDA	371.8	409.0	506.0	644.9	
Growth (%)	6.1	10.0	23.7	27.4	
Interest	31.6	22.0	8.3	1.5	
Depreciation	52.5	53.9	65.6	70.2	
Other Income	9.2	20.1	14.6	17.7	
PBT before Exceptional Items	296.9	353.1	446.8	590.9	
Less: Exceptional Items	24.2	0.0	0.0	0.0	
PBT after Exceptional Items	272.7	353.1	446.8	590.9	
Total Tax	45.2	82.5	112.5	148.7	
PAT	227.5	270.6	334.3	442.2	
Profit from Associates	1.6	6.6	6.9	7.3	
Adjusted PAT	229.1	277.2	341.2	449.4	
EPS Growth (%)	18.0	21.0	23.1	31.7	
EPS (Adjusted)	19.0	20.8	25.6	33.7	

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	277.2	341.2	449.4	
Add: Depreciation & Amortization	52.5	53.9	65.6	70.2	
Add: Interest Paid	31.6	22.0	8.3	1.5	
Net Increase in Current Assets	-196.1	-90.9	-141.4	-285.3	
Net Increase in Current Liabilities	-31.2	101.1	64.3	73.6	
Others	-26.3	13.8	0.0	0.0	
CF from Operating activities	59.7	377.0	338.0	309.4	
(Purchase)/Sale of Fixed Assets	-71.8	-108.8	-80.0	-80.0	
Long term Loans & Advances	0.0	0.0	0.0	0.0	
Investments	-31.0	0.3	-100.0	-100.0	
Others	-52.9	-97.5	0.0	0.0	
CF from Investing activities	-83.9	-97.2	-176.9	-176.7	
(inc)/Dec in Loan	75.7	-126.8	-150.0	-100.0	
Dividend & Dividend tax	-19.3	-19.3	-19.3	-19.3	
Less: Interest Paid	-31.6	-22.0	-8.3	-1.5	
Other	0.0	0.1	0.0	0.0	
CF from Financing activities	24.7	-168.1	-177.6	-120.8	
Net Cash Flow	0.6	111.7	-16.5	11.9	
Cash and Cash Equivalent at the	17.7	18.2	130.0	113.5	
Cash	18.2	130.0	113.5	125.4	

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	1,766.2	2,088.1	2,518.3	
Total Shareholders funds	1,542.9	1,792.9	2,114.9	2,545.0	
Minority Interest	0.0	0.0	0.0	0.0	
Total Debt	398.9	272.1	122.1	22.1	
Deferred Tax Liability	78.5	80.3	84.3	88.5	
Long-Term Provisions	11.1	10.3	10.5	10.7	
Other Non Current Liabilities	5.3	11.6	11.8	12.1	
Source of Funds	2,036.7	2,167.1	2,343.5	2,678.3	
Gross Block - Fixed Assets	950.0	1,050.4	1,130.4	1,210.4	
Accumulated Depreciation	206.6	260.5	326.0	396.2	
Net Block	743.4	789.9	804.3	814.1	
Capital WIP	18.1	37.8	37.8	37.8	
Fixed Assets	761.5	827.7	842.1	851.9	
Investments	194.4	194.1	294.1	394.1	
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	67.8	69.2	70.6	
Inventory	374.2	489.1	440.7	533.9	
Debtors	823.1	697.5	881.5	1,067.8	
Loans and Advances	40.7	45.7	46.2	46.6	
Other Current Assets	165.8	262.5	267.7	273.1	
Cash	18.2	130.0	113.5	125.4	
Total Current Assets	1,422.1	1,624.7	1,749.7	2,046.8	
Creditors	264.2	261.9	320.5	388.3	
Provisions	52.8	100.4	102.4	104.4	
Other Current Liabilities	129.1	184.9	188.6	192.4	
Total Current Liabilities	446.1	547.2	611.6	685.1	
Net Current Assets	976.0	1,077.5	1,138.1	1,361.7	
Application of Funds	2,036.7	2,167.1	2,343.5	2,678.3	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
Reported EPS	17.2	20.8	25.6	33.7	
BV per share	115.7	134.4	158.5	190.8	
Cash per Share	1.4	9.7	8.5	9.4	
Dividend per share	1.4	1.4	1.4	1.4	
Operating Ratios (%)					
Gross Profit Margins	48.3	50.3	49.0	49.0	
EBITDA margins	15.3	16.9	17.3	18.2	
PAT Margins	10.4	11.5	11.7	12.7	
Inventory days	56.3	73.8	55.0	55.0	
Debtor days	123.8	105.3	110.0	110.0	
Creditor days	39.7	39.5	40.0	40.0	
Asset Turnover	2.6	2.3	2.6	2.9	
Return Ratios (%)					
RoE	16.4	15.5	16.1	17.7	
RoCE	16.1	17.3	19.4	22.1	
RoIC	16.1	17.8	20.2	22.9	
Valuation Ratios (x)					
P/E	31.1	25.8	20.9	15.9	
EV / EBITDA	20.2	17.8	14.1	10.9	
EV / Net Sales	3.1	3.0	2.4	2.0	
Market Cap / Sales	2.9	3.0	2.4	2.0	
Price to Book Value	4.6	4.0	3.4	2.8	
Solvency Ratios					
Debt / EBITDA	1.1	0.7	0.2	0.0	
Debt / Equity	0.3	0.2	0.1	0.0	
Current Ratio	3.1	2.7	2.7	2.8	
Quick Ratio	2.3	1.8	2.0	2.0	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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