

## Embarking on another capex cycle...

**About the stock:** Radico Khaitan (earlier Rampur Distillery Company) is among the largest manufacturers of Indian made foreign liquor (IMFL) in India. The company is also a supplier of Indian made Indian liquor (IMIL) and bulk alcohol in India.

- IMFL segment comprises ~80% of consolidated revenues. The rest is contributed by IMIL and bulk alcohol
- P&A volumes contribute 30% to overall IMFL volumes (rest by popular)

**Q3FY22 Results:** Improved product mix, however, non-IMFL costs stay elevated.

- Revenues grew 12% YoY to ₹ 766 crore, IMFL volume grew 7% YoY
- EBITDA de-grew 4% YoY to ₹ 119 crore with margins at 15.5% (vs. 18.2% in Q3FY21)
- Subsequently, PAT de-grew 6% to ₹ 79 crore

**What should investors do?** Radico has the distinction of being among very few domestic players that have over the years entered and generated brand equity in the prestige and above liquor segment.

- We remain positive on the stock and maintain our BUY recommendation

**Target Price & Valuation:** We value the stock at ₹ 1200 i.e. 40x P/E on FY23E EPS

**Key triggers for future price performance:** Newer capacities would ensure enough availability of grain based ENA to address Radico higher growth expectations (expect margins to remain at elevated levels)

- Pan-India launch of new super premium spirits and gaining favourable foothold in the fast growing segment
- Continued launches in premium whisky space
- Nearing net-debt free status with return ratios reaching 20%+ levels

**Alternate Stock Idea:** Besides Radico Khaitan, we remain positive on United Spirits.

- United Spirits (USL) is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 1050



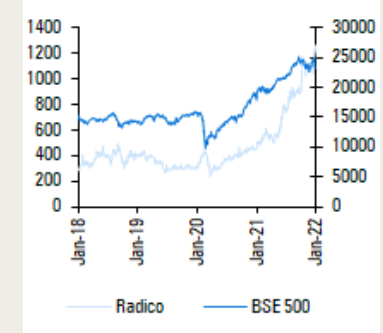
### Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	15570
Total Debt FY21 (₹ cr)	272
Cash & Investments FY21 (₹ cr)	130
EV (₹ cr)	15712
52 Week High / Low (₹)	1294/494
Equity Capital (₹ cr)	27
Face Value (₹ cr)	2.0

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	40.3	40.3	40.3	40.3
Others	59.7	59.7	59.7	59.7

### Price Chart



### Recent event & key risks

- De-bottlenecking and expansion of Radico facilities
- **Key Risk:** (i) Higher inflation in ENA and glass prices, (ii) State lockdowns

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### Key Financial Summary

₹ crore	FY21	5 Years CAGR (%)	FY22E	FY23E	FY24E	3 Year CAGR (%)
Net Sales	2,418.1	8.0%	2,860.6	3,294.6	3,802.6	16.3%
EBITDA	409.0	14.6%	472.0	550.2	654.0	16.9%
PAT	277.2	24.0%	305.2	337.4	397.8	12.8%
P/E (x)	47.7		43.3	39.1	33.2	
M.Cap/Sales (x)	5.5		4.6	4.0	3.5	
RoCE (%)	17.3		17.2	15.6	16.8	
RoE (%)	15.5		14.7	14.1	14.3	

## Key takeaways

### Q3FY22 Results: Capex cycle pushes debt free status to FY25

- To ensure grain ENA supplies for Radico's branded business, the company will convert 140 KPLD molasses plant into dual feed and post conversion grain ENA production will reach 260 KPLD in Rampur campus
- The company will also build a new greenfield 330 KPLD grain based ENA distillery at Sitapur, taking total Radico owned distillation capacity to 21.7 crore litre
- Net debt was at ₹ 136 crore in Q3FY22 vs. ₹ 198 crore in FY21

### Q3FY22 Earnings Conference Call highlights

- The commencement date for both the plants (Rampur and Sitapur) was at Q4FY23 and Q1FY24. Total capex required to execute the projects is at ₹ 740 crore (which includes ₹ 340 crore of long term borrowings)
- Radico has outsourced 50 lakh litre ENA per month. It expects to replace 70-80% of these volumes via in-house capabilities
- Monthly run rate of 8PM has reached 11 lakh cases while 8PM black has been clocking 2 lakh cases
- The management expects to post mid-teen margins in the medium term
- For 9M, liquor industry has grown 14%, whereas Radico has grown 18.6%
- Gross margins (GMs) are expected to remain range bound at 48-50% in the near term. For FY23E, the company expects a mix of price hikes (in some states) and premiumisation to kick in expansion in GMs
- The management is hopeful of getting a good hold around premium whisky segment in two years
- The export order book, although strong, faced disruptions during the quarter due to higher freight costs and duties (payable on CIF), leading to delay in shipments. The management expects the situation to resolve in the medium term
- Rampur single malt and Jaisalmer gin have been procured (first order) by the CSD department (super premium 0.5 million volumes market) in Q3
- A 7-8% advertising spend is targeted with double digit spend for Prestige & Above category

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY21	FY22E	FY23E	FY24E
Total Operating Income	2,418.1	2,860.6	3,294.6	3,802.6
Growth (%)	-0.4	18.3	15.2	15.4
COGS	1,202.4	1,544.7	1,713.2	1,977.3
Gross Profit	1,215.7	1,315.9	1,581.4	1,825.2
Gross Profit Margins (%)	50.3	46.0	48.0	48.0
Employee Expenses	176.3	157.3	197.7	228.2
SG&A	316.5	314.7	421.7	486.7
Other Expenditure	313.9	371.9	411.8	456.3
Total Operating Expenditure	2,009.2	2,388.6	2,744.4	3,148.5
EBITDA	409.0	472.0	550.2	654.0
Growth (%)	10.0	15.4	16.6	18.9
Interest	22.0	15.1	38.2	24.6
Depreciation	53.9	66.9	84.0	123.3
Other Income	20.1	8.6	13.2	15.2
PBT before Exceptional Items	353.1	398.6	441.2	521.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	353.1	398.6	441.2	521.3
Total Tax	82.5	100.3	111.0	131.2
PAT	270.6	298.3	330.1	390.1
Profit from Associates	6.6	6.9	7.3	7.6
Adjusted PAT	277.2	305.2	337.4	397.8
EPS Growth (%)	21.0	10.1	10.6	17.9
EPS (Adjusted)	20.8	22.9	25.3	29.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March) (₹ crore)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	277.2	305.2	337.4	397.8
Add: Depreciation & Amortization	53.9	66.9	84.0	123.3
Add: Interest Paid	22.0	15.1	38.2	24.6
Net Increase in Current Assets	-90.9	-112.3	-202.0	-235.6
Net Increase in Current Liabilities	101.1	57.3	53.4	61.6
Others	13.8	0.0	0.0	0.0
CF from Operating activities	377.0	332.1	311.0	371.7
(Purchase)/Sale of Fixed Assets	-108.8	-80.0	-485.0	-475.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	0.3	-100.0	100.0	50.0
Others	-97.5	0.0	0.0	0.0
CF from Investing activities	-97.2	-176.9	-381.7	-421.5
(inc)/Dec in Loan	-126.8	-50.0	340.0	-200.0
Dividend & Dividend tax	-19.3	-19.3	-19.3	-19.3
Less: Interest Paid	-22.0	-15.1	-38.2	-24.6
Other	0.1	0.0	0.0	0.0
CF from Financing activities	-168.1	-84.4	282.5	-243.9
Net Cash Flow	111.7	70.8	211.7	-293.8
Cash and Cash Equivalent at the beg	18.2	130.0	200.8	412.5
Cash	130.0	200.8	412.5	118.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	26.7	26.7	26.7	26.7
Reserve and Surplus	1,766.2	2,052.1	2,370.2	2,748.6
Total Shareholders funds	1,792.9	2,078.8	2,396.9	2,775.3
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	272.1	222.1	562.1	362.1
Deferred Tax Liability	80.3	84.3	88.5	92.9
Long-Term Provisions	10.3	10.5	10.7	10.9
Other Non Current Liabilities	11.6	11.8	12.1	12.3
Source of Funds	2,167.1	2,407.5	3,070.2	3,253.6
Gross Block - Fixed Assets	1,034.8	1,114.8	1,399.8	2,054.8
Accumulated Depreciation	244.9	311.8	395.8	519.1
Net Block	789.9	803.0	1,004.0	1,535.7
Capital WIP	37.8	37.8	237.8	57.8
Fixed Assets	827.7	840.8	1,241.8	1,593.5
Investments	194.1	294.1	194.1	144.1
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	67.8	69.2	70.6	72.0
Inventory	489.1	431.0	496.4	573.0
Debtors	697.5	862.1	992.9	1,146.0
Loans and Advances	45.7	46.2	46.6	47.1
Other Current Assets	262.5	267.7	273.1	278.5
Cash	130.0	200.8	412.5	118.8
Total Current Assets	1,624.7	1,807.9	2,221.6	2,163.4
Creditors	261.9	313.5	361.1	416.7
Provisions	100.4	102.4	104.4	106.5
Other Current Liabilities	184.9	188.6	192.4	196.2
Total Current Liabilities	547.2	604.5	657.9	719.5
Net Current Assets	1,077.5	1,203.4	1,563.7	1,443.9
Application of Funds	2,167.1	2,407.5	3,070.2	3,253.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Reported EPS	20.8	22.9	25.3	29.8
BV per share	134.4	155.8	179.7	208.0
Cash per Share	9.7	15.1	30.9	8.9
Dividend per share	1.4	1.4	1.4	1.4
Operating Ratios (%)				
Gross Profit Margins	50.3	46.0	48.0	48.0
EBITDA margins	16.9	16.5	16.7	17.2
PAT Margins	11.5	10.7	10.2	10.5
Inventory days	73.8	55.0	55.0	55.0
Debtor days	105.3	110.0	110.0	110.0
Creditor days	39.5	40.0	40.0	40.0
Asset Turnover	2.3	2.6	2.4	1.9
Return Ratios (%)				
RoE	15.5	14.7	14.1	14.3
RoCE	17.3	17.2	15.6	16.8
RoC	17.8	18.8	19.3	17.3
Valuation Ratios (x)				
P/E	47.7	43.3	39.1	33.2
EV / EBITDA	32.6	28.0	24.3	20.6
EV / Net Sales	5.5	4.6	4.1	3.5
Market Cap / Sales	5.5	4.6	4.0	3.5
Price to Book Value	7.4	6.4	5.5	4.8
Solvency Ratios				
Debt / EBITDA	0.7	0.5	1.0	0.6
Debt / Equity	0.2	0.1	0.2	0.1
Current Ratio	2.7	2.7	2.7	2.8
Quick Ratio	1.8	1.9	2.0	2.0

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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