

CMP: ₹ 950

Target: ₹ 1100 (16%)

Target Period: 12 months

BUY

August 12, 2022

## Premiumisation to drive earnings in medium term...

**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)

**Q1FY23 Results:** Radico's QoQ margins rebounded.

- Revenues de-grew 7% QoQ to ₹ 757 crore (IMFL volume de-grew 7% QoQ)
- However, EBITDA grew 16% to ₹ 93 crore with margins at 12.2% (240 bps QoQ expansion)
- Subsequently, PAT grew 24% to ₹ 62 crore

**What should investors do?** Radico fared well against the rising inflationary trends in Q1 compared to its peers (which saw contraction in margins). Going forward, the management intends to capitalise on the momentum by pushing its premium volumes and also securing its raw material requirement, thereby exuding resilience in medium to long term

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

**Target Price & Valuation:** We value the stock at ₹ 1100 i.e. 38x P/E on FY24E EPS

**Key triggers for future price performance:** Newer capacities would ensure enough availability of grain based ENA to address Radico's 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
- Backend integration for premium products (FY24 onwards)

**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 ₹ 920



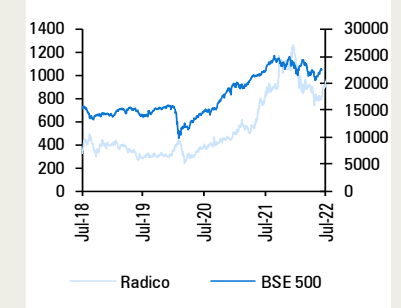
### Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	12674
Total Debt FY22 (₹ cr)	190
Cash & Investments FY22 (₹ cr)	110
EV (₹ cr)	12754
52 Week High / Low (₹)	1294/723
Equity Capital (₹ cr)	27
Face Value (₹ cr)	2.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
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	FY20	FY21	FY22E	5 Years CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	2,427.0	2,418.1	2,868.0	11.3%	3,330.4	3,890.3	17.2%
EBITDA	371.8	409.0	402.2	13.7%	482.9	622.4	15.0%
PAT	229.1	277.2	263.2	26.8%	278.0	390.6	12.1%
P/E (x)	55.3	45.7	48.1		45.6	32.4	
M.Cap/Sales (x)	5.2	5.2	4.4		3.8	3.3	
RoCE (%)	16.1	17.3	15.1		13.4	17.1	
RoE (%)	16.4	15.5	13.2		12.5	15.2	

Source: Company, ICICI Direct Research

## Key takeaways

### Q1FY23 Results: Margin expected to be normalised via price hikes, backend integration (Rampur in Q3) and premium launches

- Radico took a 3% price hike in the IMFL segment. The hike was taken in a few states like Uttar Pradesh, Madhya Pradesh, Uttarakhand, Assam, Rajasthan and Jharkhand
- The management is witnessing softening in certain commodities (paper, PET, etc) on the back of a normal rainfall. However, the overall COGS situation continues to stay volatile in the near term
- Net debt was at ₹ 163 crore in Q1FY23 vs. ₹ 116 crore in FY22

### Q1FY23 Earnings Conference Call highlights

- 8 PM Black has been launched in 19 states and clocked 2 million cases in FY22. Royal Ranthambore has also been launched in six states. The management expects to expand its reach in more states
- Newer products now comprise 10% of Radico's overall volume
- The commencement date for both plants (Rampur and Sitapur) is Q3FY23 and beginning of Q1FY24
- The management expects to revert back to mid-teen margins in the medium term
- Gross margins (GMs) are expected to remain subdued in the near term. For FY23E, the company expects a mix of value engineering of packaging materials, back-end integration, price hikes (in some states) and premiumisation (leading to better product mix) to kick in normalisation of GMs
- In the medium to long term, the management expects mid-teen double digit growth in the P&A segment and double digit growth in the popular segment
- The management expects the UP based IMIL business to graduate towards economy IMFL business due to the state's policy of converting existing IMIL volumes to grain based

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY21	FY22E	FY23E	FY24E
Total Operating Income	2,418.1	2,868.0	3,330.4	3,890.3
Growth (%)	-0.4	18.6	16.1	16.8
COGS	1,202.4	1,577.4	1,815.1	2,061.8
Gross Profit	1,215.7	1,290.6	1,515.3	1,828.4
Gross Profit Margins (%)	50.3	45.0	45.5	47.0
Employee Expenses	176.3	141.3	166.5	194.5
SG&A	316.5	313.7	366.3	427.9
Other Expenditure	313.9	433.5	499.6	583.5
Total Operating Expenditure	2,009.2	2,465.8	2,847.5	3,267.8
EBITDA	409.0	402.2	482.9	622.4
Growth (%)	10.0	-1.7	20.1	28.9
Interest	22.0	13.1	41.5	27.9
Depreciation	53.9	64.9	103.8	109.8
Other Income	20.1	7.4	13.3	15.6
PBT before Exceptional Items	353.1	331.6	350.9	500.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	353.1	331.6	350.9	500.3
Total Tax	82.5	83.1	88.3	125.9
PAT	270.6	248.5	262.6	374.4
Profit from Associates	6.6	14.7	15.4	16.2
Adjusted PAT	277.2	263.2	278.0	390.6
EPS Growth (%)	21.0	-5.0	5.6	40.5
EPS (Adjusted)	20.8	19.7	20.8	29.3

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	263.2	278.0	390.6
Add: Depreciation & Amortization	53.9	64.9	103.8	109.8
Add: Interest Paid	22.0	13.1	41.5	27.9
Net Increase in Current Assets	-90.9	-6.8	-216.9	-257.1
Net Increase in Current Liabilities	101.1	-70.9	64.2	64.9
Others	13.8	9.0	0.0	0.0
CF from Operating activities	377.0	221.2	270.6	336.1
(Purchase)/Sale of Fixed Assets	-108.8	-67.0	-700.0	80.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	0.3	47.6	100.0	-200.0
Others	-79.9	9.0	0.0	0.0
CF from Investing activities	-79.7	-99.7	-598.8	-118.7
(inc)/Dec in Loan	-126.8	-82.2	420.0	-200.0
Dividend & Dividend tax	-36.8	-46.0	-46.0	-46.0
Less: Interest Paid	-22.0	-13.1	-41.5	-27.9
Other	0.0	0.0	0.0	0.0
CF from Financing activities	-185.6	-141.3	332.5	-273.9
Net Cash Flow	111.7	-19.8	4.3	-56.5
Cash and Cash Equivalent at the	18.2	130.0	110.1	114.5
Cash	130.0	110.1	114.5	58.0

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	1,971.1	2,203.1	2,547.7
Total Shareholders funds	1,792.9	1,997.8	2,229.8	2,574.4
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	272.1	189.9	609.9	409.9
Deferred Tax Liability	80.3	76.9	80.7	84.8
Long-Term Provisions	10.3	11.1	11.3	11.6
Other Non Current Liabilities	11.6	0.1	0.1	0.1
Source of Funds	2,167.1	2,275.8	2,931.9	3,080.7
Gross Block - Fixed Assets	1,034.8	1,130.4	1,730.4	1,830.4
Accumulated Depreciation	244.9	309.8	413.6	523.4
Net Block	789.9	820.6	1,316.8	1,307.0
Capital WIP	37.8	30.3	130.3	-49.7
Fixed Assets	827.7	850.9	1,447.1	1,257.2
Investments	194.1	146.5	46.5	246.5
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	143.1	146.0	148.9
Inventory	489.1	536.9	501.8	586.2
Debtors	697.5	755.8	1,003.7	1,172.4
Loans and Advances	45.7	24.4	24.6	24.9
Other Current Assets	262.5	184.6	188.3	192.0
Cash	130.0	110.1	114.5	58.0
Total Current Assets	1,624.7	1,611.7	1,832.9	2,033.5
Creditors	261.9	304.3	365.0	426.3
Provisions	100.4	17.3	17.7	18.0
Other Current Liabilities	184.9	154.7	157.8	161.0
Total Current Liabilities	547.2	476.3	540.5	605.3
Net Current Assets	1,077.5	1,135.4	1,292.4	1,428.1
Application of Funds	2,167.1	2,275.9	2,931.9	3,080.7

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Reported EPS	20.8	19.7	20.8	29.3
BV per share	134.4	149.8	167.1	193.0
Cash per Share	9.7	8.3	8.6	4.3
Dividend per share	2.8	3.5	3.5	3.5
Operating Ratios (%)				
Gross Profit Margins	50.3	45.0	45.5	47.0
EBITDA margins	16.9	14.0	14.5	16.0
PAT Margins	11.5	9.2	8.3	10.0
Inventory days	73.8	68.3	55.0	55.0
Debtor days	105.3	96.2	110.0	110.0
Creditor days	39.5	38.7	40.0	40.0
Asset Turnover	2.3	2.5	1.9	2.1
Return Ratios (%)				
RoE	15.5	13.2	12.5	15.2
RoCE	17.3	15.1	13.4	17.1
RoIC	17.8	15.8	14.1	16.7
Valuation Ratios (x)				
P/E	45.7	48.1	45.6	32.4
EV / EBITDA	31.3	31.7	27.3	20.9
EV / Net Sales	5.3	4.4	4.0	3.3
Market Cap / Sales	5.2	4.4	3.8	3.3
Price to Book Value	7.1	6.3	5.7	4.9
Solvency Ratios				
Debt / EBITDA	0.7	0.5	1.3	0.7
Debt / Equity	0.2	0.1	0.3	0.2
Current Ratio	2.7	3.2	3.2	3.3

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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