

# Radico Khaitan

## P&A outperformance sustains

Radico's Q4FY23 print was weak, with EBITDAM at 9.5% (a 30-quarter low) and PAT falling by 20% despite sustained P&A outperformance. Net sales grew by 2% YoY (HSIE 5%), with IMFL volumes marginally declining by 0.7% to 7.24mn cases (four-year CAGR at 9%). P&A volume/revenue grew by 17/18% (HSIE 14/15%); on a four-year CAGR basis, volumes grew in the high teens. Regular volume/revenue fell by 23/26% (HSIE -22/-16%). GM contracted by 215/70bps YoY/QoQ to 40.6% (the lowest of the past many years), impacted by sustained commodity inflation and losses in non-IMFL. EBITDAM dipped by 30/270bps YoY/QoQ to 9.5% (HSIE 11.7%). Radico remains optimistic about exiting FY24 with mid-teen EBITDAM, led by (1) sustained momentum in P&A; (2) price hikes in IMFL; (3) softening RM; and (4) efficiency gains from in-house capacities. Whilst we remain positive about Radico's success in product innovation and luxury portfolio scale-up, demand for the mid-price segment is expected to be muted. Costs related to capex and slower margin recovery will continue to impact earnings. We cut our estimates by 8/3% for FY24/25. We value Radico at 30x P/E on Mar-25 EPS to arrive at a TP of INR 900. Maintain REDUCE.

- **P&A continues to shine; regular portfolio weak:** Net revenue grew by 2% YoY to INR 8.3bn (HSIE 5%), with IMFL volumes marginally declining by 0.7% to 7.24mn cases (in-line). P&A sustained outperformance, with volumes/revenue growing by 17/18% (HSIE 14/15%). Realizations grew by 1% YoY to INR1,700/case. Regular volumes/revenue fell by 23/26% (HSIE -22/-16%). Realizations fell by 3.5% YoY to INR572/case. We model a 9% IMFL volume CAGR for FY23-25, with overall revenue CAGR of 16%.
- **Margin pressure sustains:** GM declined by 215/70bps YoY/QoQ to 40.6%(HSIE 41.8%), impacted by sustained commodity inflation. With backward integration to offer cost arbitrage and softening of key inputs, GM is expected to improve, and we model 43.5/44% during FY24/25. EBITDAM contracted by 30/270bps YoY/QoQ and has been under pressure due to losses in the non-IMFL segment. We model a mid-teen EBITDAM for FY24/FY25.
- **Con call and BS/CF takeaways:** (1) Consciously rationalised regular portfolio volumes to mitigate cost pressures. (2) In Q4, including royalty sales, P&A volumes grew 35% while regular volumes fell by 16%. (3) Margins to improve, aided by price hikes in UP, Rajasthan, Telangana and Karnataka for IMFL. (4) In FY24, P&A volumes will grow in the mid-teens while the regular portfolio will grow by mid-single-digit. (5) The mid-teen EBITDA margin at exit FY24 will improve in coming years. (6) Rampur Dual Feed commissioned in Jan'2023; Sitapur greenfield to commission by the beginning of Q2FY24. (7) Peak debt to be INR 8bn in H1FY24. (8) Morpheus Premium Brandy and 1965 Spirit of Victory Premium Rum added to the millionaire club. Radico has 7 brands with an annual volume of million cases.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	8,318	8,125	2.4	7,922	5.0	28,756	31,428	36,824	42,593
EBITDA	789	796	(0.9)	969	(18.5)	4,149	3,584	5,413	6,730
APAT	373	464	(19.6)	571	(34.7)	2,521	2,044	3,154	3,990
Diluted EPS (INR)	2.8	3.5	(19.6)	4.3	(34.7)	18.9	15.3	23.6	29.8
P/E (x)						61.1	75.4	48.9	38.6
EV / EBITDA (x)						37.2	44.4	29.2	23.2
RoCE (%)						12.6	8.5	11.7	13.5

Source: Company, HSIE Research

## REDUCE

CMP (as on 26 May 23)	INR 1,161
Target Price	INR 900
NIFTY	18,499

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 900	INR 900
	FY24E	FY25E
EPS %	-8%	-3%

### KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (INR bn) / (\$ mn)	155/1,898
6m avg traded value (INR mn)	243
52 Week high / low	INR 1,230/761

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.9)	10.5	47.7
Relative (%)	(6.0)	10.2	32.5

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	40.27	40.27
FIs & Local MFs	23.23	23.52
FPIs	18.93	18.63
Public & Others	17.57	17.58
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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