



3R MATRIX

| | + | = | - |
|----------------------|---|---|---|
| Right Sector (RS) | ✓ | ■ | ■ |
| Right Quality (RQ) | ✓ | ■ | ■ |
| Right Valuation (RV) | ■ | ✓ | ■ |

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

| | Old | | New |
|----|-----|---|-----|
| RS | ■ | ↔ | ■ |
| RQ | ■ | ↔ | ■ |
| RV | ■ | ↔ | ■ |

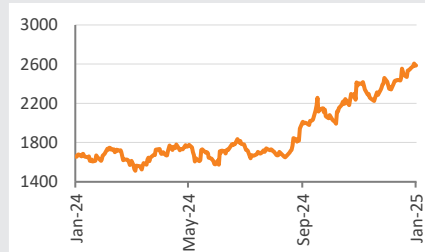
Company details

| | |
|-------------------------------|-------------------|
| Market cap: | Rs. 34,584 cr |
| 52-week high/low: | Rs. 2,635 / 1,429 |
| NSE volume: (No of shares) | 3.5 lakh |
| BSE code: | 532497 |
| NSE code: | RADICO |
| Free float: (No of shares) | 8.0 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 40.2 |
| FII | 19.2 |
| DII | 24.7 |
| Others | 15.9 |

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|------|------|------|
| Absolute | 8.4 | 27.3 | 49.9 | 56.1 |
| Relative to Sensex | 9.5 | 29.5 | 50.1 | 44.9 |

Source: Mirae Asset Sharekhan Research, Bloomberg

Radico Khaitan Ltd

Premiumisation-led growth to continue

| | | | |
|-----------------------|-------------------------------|-----------------------|--------------------------------|
| Consumer Goods | Sharekhan code: RADICO | | |
| Reco/View: Buy | ↔ | CMP: Rs. 2,586 | Price Target: Rs. 2,996 |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- We re-iterate a Buy on Radico Khaitan (RKL) with a revised PT of Rs. 2,996. Stock trades at 64x/51x its FY26E/FY27E earnings, respectively.
- P&A category to post over 15% volume growth in FY2025 driven by focus on premiumisation, while regular category is expected to deliver mid-single-digit volume growth.
- Premiumisation and cost optimization to aid 125-150 bps annual OPM improvement over the next 2-3 years. Targets late-teens OPM in three years.
- With strategies in place, we expect RKL's revenues and PAT to post an 18% and 39% CAGR, respectively, over FY2024-27. Strong earnings growth and reduction in debt will boost return profile in the coming years.

RKL continues to focus on premiumisation and expects double-digit volume growth momentum in the Prestige & Above (P&A) category to continue (eyes 15-18% volume growth in FY2025), while the regular segment is likely to recover and deliver mid-single-digit volume growth. Contribution of P&A portfolio to overall IMFL sales volumes rose to 46% in FY2024 from 28% in FY2019 and we expect this to further increase to ~56% by FY2027. Premiumization and cost optimization initiatives (backward integration and packaging changes) will drive 125-150 bps annual OPM improvement. RKL is targeting late-teens OPM in three years. Debt reduction and strong cash flow generation will help significantly improve return profile.

- P&A to continue growth momentum; regular segment to recover:** Prestige & Above (P&A) brands have posted 15 consecutive quarters of double-digit volume growth driven by premiumisation and improved traction to new launches. With H2 likely to be good for the premium segment, RKL expects momentum to continue and register 15-18% volume growth in FY2025. On the other hand, the regular category, which has posted double-digit volume decline for past nine quarters is set to revive with a mid-single-digit volume growth in coming quarters aided by a favourable base, customers upgrading from country liquor to regular IMFL segment, and market share gains on the back of policy interventions.
- Eyeing late-teens OPM:** A better mix driven by premiumisation and cost optimisation measures such as backward integration (commencement of the Sitapur distillery) and changes in packaging (shifting from glass to PET bottles in the regular segment and removal of mono cartons) will support margins in the coming years. Impact of grain/ENA costs has been minimal in recent quarters, and inflationary pressures have been largely absorbed, helped by the better mix. The company targets 125-150 bps OPM improvement every year and aims for late-teens OPM in three years.
- Debt reduction on cards; return profile to significantly improve:** RKL incurred a capex of Rs. 956 crore on the Rampur Dual Feed, Sitapur Green Field, and other projects since April 2022. Capex was largely done through debt and total debt on books stood at Rs. 745 crore at Q2FY2025-end. With no major capex planned in 6-7 years, RKL expects to repay large chunk of debt over the next two years aided by strong free cash flow generation. Strong earnings growth and reduction in debt will boost return profile, with RoE/RoCE expected to rise to 17%/22% in FY2027 from 11%/12% in FY2024, respectively.

Our Call

View - Maintain Buy with a revised PT of Rs. 2,996: Focus on premiumisation and support of backward integration will drive consistent strong double-digit earnings growth in the coming years. We like the company's focus on launching products in brown and white spirits, targeting the premium/luxury segment to consistently gain market share in key markets and outpace the industry. Margins have bottomed out and we should expect consistent improvement in profitability and cash flows in the coming years. Stock trades at 64x/51x its FY26E/FY27E earnings, respectively. We retain a Buy on the stock with a revised PT of Rs. 2,996.

Key Risks

Slow expansion in OPM due to a change in liquor policies in key states, any increase in excise rate on liquor or volatility in the raw material prices would act as a key risk to our earnings estimates in the near to medium term.

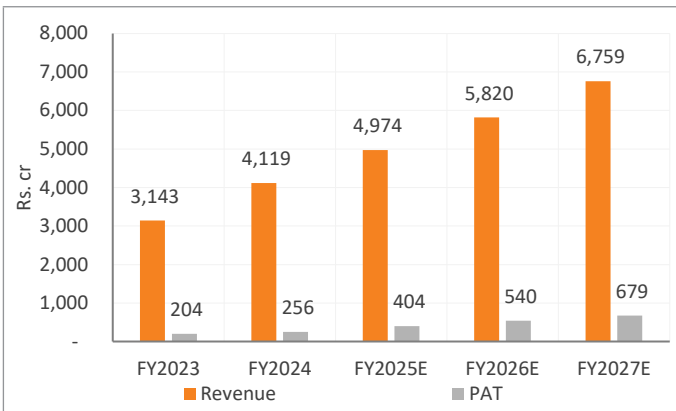
Valuation (Consolidated)

| Particulars | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------|-------|-------|-------|-------|-------|
| Revenue | 3,143 | 4,119 | 4,974 | 5,820 | 6,759 |
| OPM (%) | 11.4 | 12.3 | 13.5 | 14.5 | 15.1 |
| Adjusted PAT | 204 | 256 | 404 | 540 | 679 |
| Adjusted EPS (Rs.) | 16.5 | 19.6 | 30.2 | 40.4 | 50.8 |
| P/E (x) | - | - | 85.4 | 63.9 | 50.8 |
| P/B (x) | 15.6 | 14.2 | 12.3 | 10.5 | 8.8 |
| EV/EBIDTA (x) | 97.8 | 69.5 | 51.8 | 41.1 | 33.6 |
| RoNW (%) | 9.3 | 10.5 | 14.4 | 16.4 | 17.3 |
| RoCE (%) | 9.8 | 12.0 | 17.3 | 20.0 | 22.5 |

Source: Company; Mirae Asset Sharekhan estimates

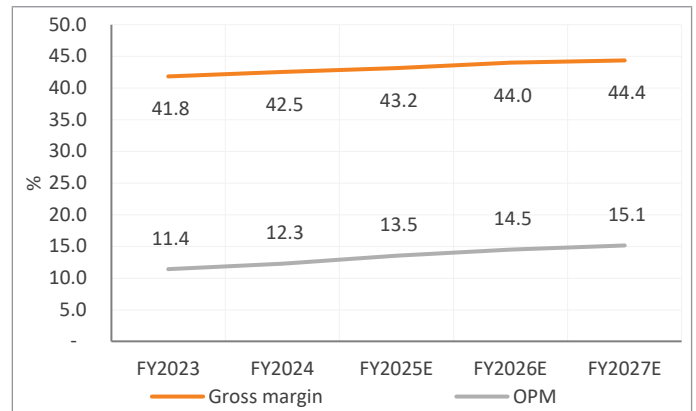
Financials in charts

Steady rise in revenue and PAT



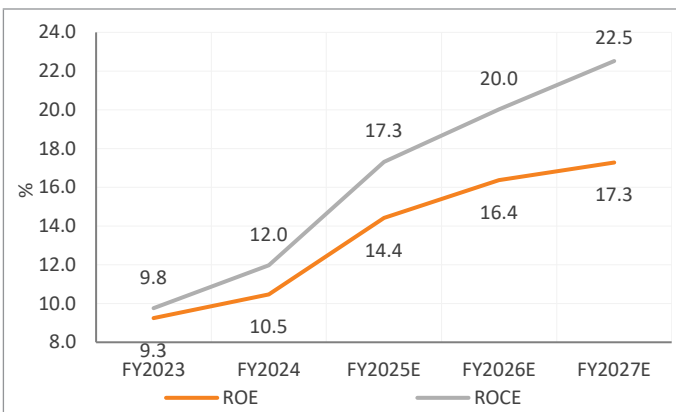
Source: Company; Mirae Asset Sharekhan Research

Margins to improve from FY2024 level



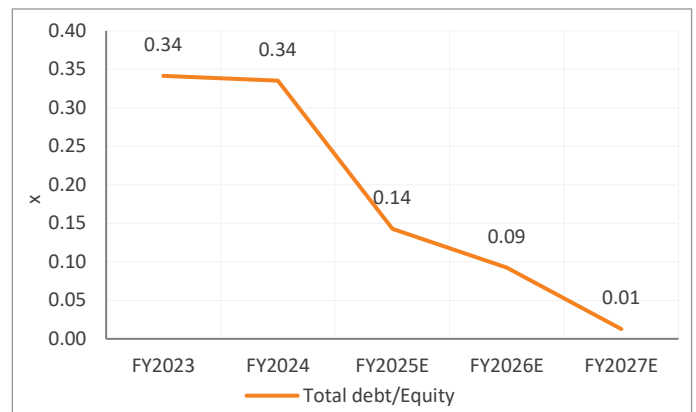
Source: Company; Mirae Asset Sharekhan Research

Sharp improvement in return ratios



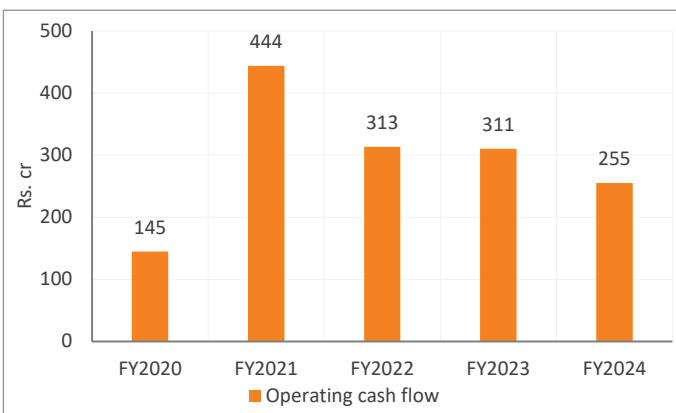
Source: Company; Mirae Asset Sharekhan Research

Debt expected to reduce in coming years



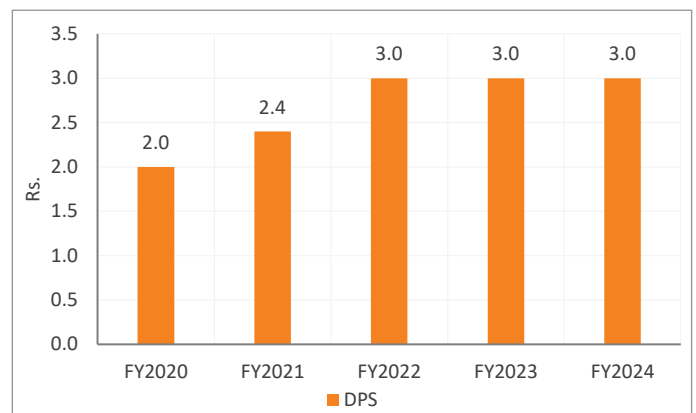
Source: Company; Mirae Asset Sharekhan Research

Trend in operating cash flow generation



Source: Company; Mirae Asset Sharekhan Research

Consistent dividend payout



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural change in the alcohol industry

Indian Made Indian Liquor (IMIL) is evolving from a restricted quota-based, commoditised market to a consumer-driven brand-based industry. Its main attractiveness lies in its sizeable base, comprising SEC-D, below which could translate into ~40% of total population (excluding Below Poverty Line population). Growth in this segment is expected to be driven by a growing consumer base, rising rural incomes, consumption, conversion from illicit/toddy to IMIL with increasing awareness about health and quality, conducive regulatory policies and population growth. In the short run, the IMIL industry could benefit from lower discretionary incomes, which would push up demand for lower-priced liquor. The government is targeting to achieve 20% ethanol blending by 2025, which would result in a higher demand for grain-based molasses in the coming years.

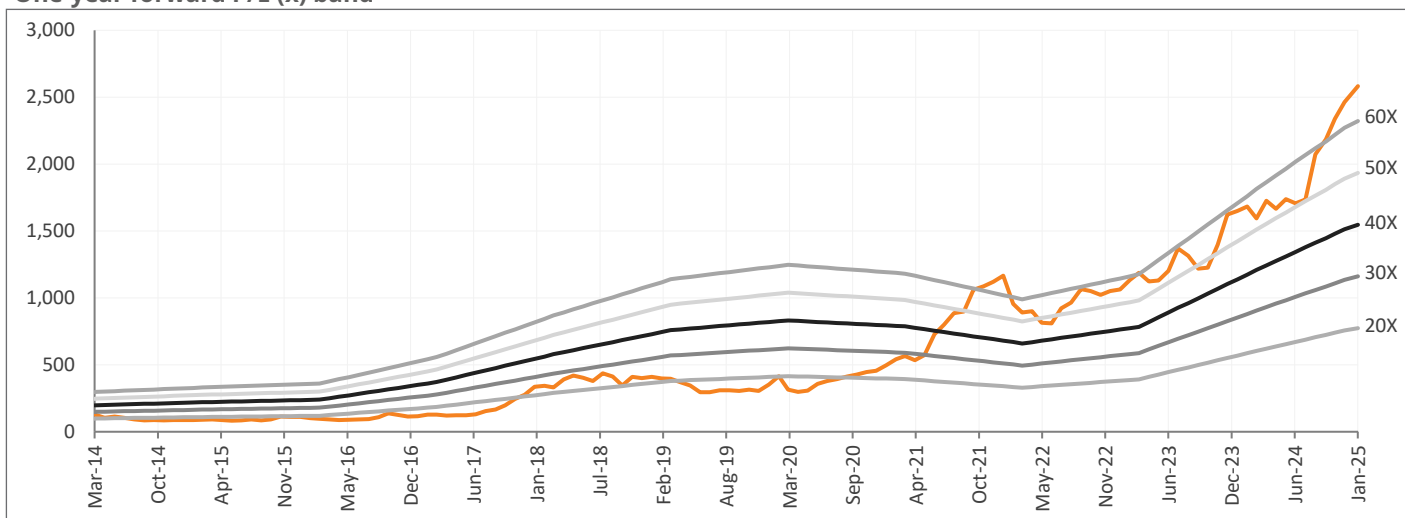
■ Company Outlook – Premiumisation remains the key growth driver

With consumers shifting to premium IMFL brands, RKL's focus on improving presence of each brand in key markets and emergence of favourable liquor policies in key states would aid faster growth of branded liquor products in the near to medium term. The company expects double-digit volume growth in the P&A segment to sustain in the medium term due to strong traction to its premium brands. Inflationary pressures will continue to pressurise margins in the near term. However, the management has maintained its medium-term guidance of achieving high-teen OPM in 2-3 years due to improved mix of the P&A segment and backward integration to secure raw-material supply in the long run.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,996

Focus on premiumisation and support of backward integration will drive consistent strong double-digit earnings growth in the coming years. We like the company's focus on launching products in brown and white spirits, targeting the premium/luxury segment to consistently gain market share in key markets and outpace the industry. Margins have bottomed out and we should expect consistent improvement in profitability and cash flows in the coming years. Stock trades at 64x/51x its FY26E/FY27E earnings, respectively. We retain a Buy on the stock with a revised PT of Rs. 2,996.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

| Particulars | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | |
|------------------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
| | FY24 | FY25E | FY26E | FY24 | FY25E | FY26E | FY24 | FY25E | FY26E |
| Allied Blenders & Distillers | - | 62.3 | 38.9 | 47.1 | 34.1 | 27.9 | 13.4 | 16.1 | 17.7 |
| Radico Khaitan | - | 85.3 | 63.9 | 69.5 | 51.8 | 41.1 | 12.0 | 17.3 | 20.0 |

Source: Company, Sharekhan estimates

About company

RKL, formerly known as Rampur Distillery, commenced its operations in 1943. Over the years, the company has evolved from being just a distiller of spirits for others to a leading IMFL company. Currently, the company has eight millionaire brands, which are 8PM Whisky, 8PM Premium Black Whisky, Contessa Rum, Old Admiral Brandy, Spirit of Victory 1965 Rum, Morpheus Brandy, Magic Moments Vodka and After Dark Whisky. RKL has three distilleries in Rampur (Uttar Pradesh) and two in joint venture with RNV in Aurangabad (Maharashtra) in which RKL owns 36% equity. The company operates five own and 28 contract bottling units spread across the country with a combined capacity of 157 million litres. RKL is one of the largest providers of branded IMFL to Canteen Stores Department (CSD) and exports its products to more than 85 countries.

Investment theme

RKL has transformed itself into a leading IMFL brand player from just a distillery player with premiumisation at the core of its growth strategy. The company's P&A segment reported a 13% CAGR over FY2019-FY2024, contributing ~46% to own IMFL sales volume (69% to IMFL's sales value). Going ahead as well, the company expects the strong growth trajectory in premium brands to continue. Efficient working capital management and improved profitability would help the company generate high free cash flows (FCF) in the coming years. The company is investing in backward integration to secure extra neutral alcohol (ENA) supply (largely grain-based). It will help to retain its guidance of high-teen margins over the next two years.

Key Risks

- ♦ **Decline in demand for the company's products:** Slowdown in global economic growth and other declines or disruptions in the Indian economy, in general, may result in reduction in disposable income of consumers and slowdown in the IMFL industry. This could adversely affect the company's business and financial performance.
- ♦ **Risk due to stringent regulation norms:** The Indian spirit industry is highly regulated and complex as each state has its own regulations governing the manufacture and sale of spirits. Any change in rules and regulations by the respective state governments and non-compliance with laws and regulations could adversely impact the business.
- ♦ **Increased raw-material prices:** ENA and packaging materials are two key raw-material components. Any price volatility in the prices of these components may have a bearing on the company's profitability.

Additional Data

Key management personnel

| | |
|---------------------|--|
| Lalit Kumar Khaitan | Chairman-Managing Director |
| Abhishek Khaitan | Executive Director-Managing Director |
| Dilip K. Banthiya | Chief Financial Officer |
| Dinesh Kumar Gupta | Vice President - Legal, Company Secretary & Compliance Officer |

Source: Company Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|--|-------------|
| 1 | Nippon Life India Asset Management Ltd | 3.36 |
| 2 | Tata Asset Management Pvt. Ltd | 3.21 |
| 3 | Aditya Birla Sun Life AMC Ltd | 2.92 |
| 4 | TIMF Holdings | 2.40 |
| 5 | Vanguard Group Inc. | 2.36 |
| 6 | Kotak Mahindra Asset Management Co. Ltd. | 2.23 |
| 7 | Tata AIA Life Insurance Co. Ltd. | 2.09 |
| 8 | BNP Paribas SA | 1.52 |
| 9 | DSP Investment Managers Pvt. Ltd. | 1.39 |
| 10 | SMALLCAP World Fund Inc. | 1.31 |

Source: Bloomberg

Mirae Asset Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Mirae Asset Sharekhan 3R Matrix

| Right Sector | |
|-----------------|--|
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet |
| Right Valuation | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai - 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai - 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE - 748, NSE - 10733, MCX - 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.