

Acceleration of premiumisation trend, big positive...

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 is popular)

Rationale:

- The liquor sector is witnessing emergence of newer premium price points due to higher instances of at-home liquor consumption. Fewer avenues for customer discretionary spend resulted in higher spends towards upgradation of liquor brands (that typically exhibit higher customer stickiness and customer loyalty)
- The company is capitalising on the trend by expanding its premium portfolio by adding several new brands in the next two years
- Radico's foray into canteen stores department (super premium category) will lead to a strong brand image in the super-premium whisky category
- The company has already demonstrated success in the premium category (both whisky and vodka category) via brand extension route (Magic Moments Verve, 8 PM premium black)
- Nearing net-debt free status with return ratios reaching 20%+ levels

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 ₹ 1450 i.e. 38x P/E on FY24E EPS

Alternate Stock Idea: Apart from 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



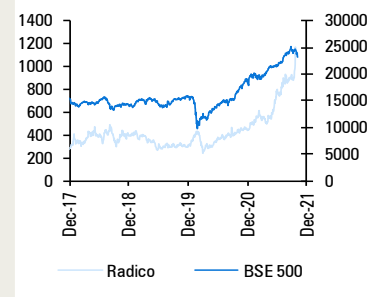
Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	16200
Total Debt FY21 (₹ cr)	272
Cash & Investments FY21 (₹ cr)	130
EV (₹ cr)	16342
52 Week High / Low (₹)	1214/443
Equity Capital (₹ cr)	27
Face Value (₹ cr)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-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

- Two super-premium brands launched in October in two states (Maharashtra and UP)
- **Key Risk:** (i) Higher inflation in ENA and glass prices, (ii) state lockdowns

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Key Financial Summary

₹ crore	FY20	FY21	5 Years CAGR (%)	FY22E	FY23E	FY24E	3 Year CAGR (%)
Net Sales	2,427.0	2,418.1	8.0%	2,898.8	3,464.2	4,156.5	19.8%
EBITDA	371.8	409.0	14.6%	478.3	595.8	723.2	20.9%
PAT	229.1	277.2	24.0%	316.0	407.2	503.6	22.0%
P/E (x)	68.4	56.6		49.6	38.5	31.1	
M.Cap/Sales (x)	6.5	6.5		5.4	4.5	3.8	
RoCE (%)	16.1	17.3		17.7	20.0	21.2	
RoE (%)	16.4	15.5		15.1	16.4	17.0	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY21	FY22E	FY23E	FY24E
Total Operating Income	2,418.1	2,898.8	3,464.2	4,156.5
Growth (%)	-0.4	19.9	19.5	20.0
COGS	1,202.4	1,550.9	1,801.4	2,161.4
Gross Profit	1,215.7	1,347.9	1,662.8	1,995.1
Gross Profit Margins (%)	50.3	46.5	48.0	48.0
Employee Expenses	176.3	179.7	207.8	241.1
SG&A	316.5	333.4	443.4	532.0
Other Expenditure	313.9	356.6	415.7	498.8
Total Operating Expenditure	2,009.2	2,420.5	2,868.3	3,433.3
EBITDA	409.0	478.3	595.8	723.2
Growth (%)	10.0	17.0	24.6	21.4
Interest	22.0	15.1	8.3	4.9
Depreciation	53.9	64.7	70.5	76.3
Other Income	20.1	14.5	17.3	20.8
PBT before Exceptional Items	353.1	413.0	534.4	662.9
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	353.1	413.0	534.4	662.9
Total Tax	82.5	104.0	134.5	166.8
PAT	270.6	309.1	399.9	496.0
Profit from Associates	6.6	6.9	7.3	7.6
Adjusted PAT	277.2	316.0	407.2	503.6
EPS Growth (%)	21.0	14.0	28.8	23.7
EPS (Adjusted)	20.8	23.7	30.5	37.8

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	316.0	407.2	503.6
Add: Depreciation & Amortization	53.9	64.7	70.5	76.3
Add: Interest Paid	22.0	15.1	8.3	4.9
Net Increase in Current Assets	-90.9	-129.6	-261.4	-318.9
Net Increase in Current Liabilities	101.1	61.5	67.8	81.8
Others	13.8	0.0	0.0	0.0
CF from Operating activities	377.0	327.6	292.3	347.7
(Purchase)/Sale of Fixed Assets	-108.8	-80.0	-100.0	-100.0
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	0.3	-100.0	-100.0	-100.0
Others	-97.5	0.0	0.0	0.0
CF from Investing activities	-97.2	-176.9	-196.7	-196.5
(inc)/Dec in Loan	-126.8	-50.0	-100.0	-50.0
Dividend & Dividend tax	-19.3	-19.3	-19.3	-19.3
Less: Interest Paid	-22.0	-15.1	-8.3	-4.9
Other	0.1	0.0	0.0	0.0
CF from Financing activities	-168.1	-84.4	-127.6	-74.2
Net Cash Flow	111.7	66.3	-32.0	77.0
Cash and Cash Equivalent at the	18.2	130.0	196.3	164.3
Cash	130.0	196.3	164.3	241.3

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	2,062.9	2,450.7	2,935.1
Total Shareholders funds	1,792.9	2,089.6	2,477.5	2,961.8
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	272.1	222.1	122.1	72.1
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	2,418.3	2,710.8	3,150.0
Gross Block - Fixed Assets	1,034.8	1,114.8	1,214.8	1,314.8
Accumulated Depreciation	244.9	309.6	380.0	456.3
Net Block	789.9	805.2	834.8	858.5
Capital WIP	37.8	37.8	37.8	37.8
Fixed Assets	827.7	843.0	872.6	896.3
Investments	194.1	294.1	394.1	494.1
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	436.8	522.0	626.3
Debtors	697.5	873.6	1,044.0	1,252.6
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	196.3	164.3	241.3
Total Current Assets	1,624.7	1,820.6	2,050.0	2,445.9
Creditors	261.9	317.7	379.6	455.5
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	608.7	676.5	758.3
Net Current Assets	1,077.5	1,211.9	1,373.5	1,687.6
Application of Funds	2,167.1	2,418.3	2,710.8	3,150.0

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Reported EPS	20.8	23.7	30.5	37.8
BV per share	134.4	156.6	185.7	222.0
Cash per Share	9.7	14.7	12.3	18.1
Dividend per share	1.4	1.4	1.4	1.4
Operating Ratios (%)				
Gross Profit Margins	50.3	46.5	48.0	48.0
EBITDA margins	16.9	16.5	17.2	17.4
PAT Margins	11.5	10.9	11.8	12.1
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	2.9	3.2
Return Ratios (%)				
RoE	15.5	15.1	16.4	17.0
RoCE	17.3	17.7	20.0	21.2
RoIC	17.8	19.0	21.0	22.6
Valuation Ratios (x)				
P/E	58.2	51.1	39.6	32.1
EV / EBITDA	39.8	33.8	27.0	22.1
EV / Net Sales	6.7	5.6	4.6	3.8
Market Cap / Sales	6.7	5.6	4.7	3.9
Price to Book Value	9.0	7.7	6.5	5.5
Solvency Ratios				
Debt / EBITDA	0.7	0.5	0.2	0.1
Debt / Equity	0.2	0.1	0.0	0.0
Current Ratio	2.7	2.7	2.8	2.9

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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