

## Premiumisation, back-end integration to drive improvement in margins

**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)

### Q4FY23 Results: Margins bottom out.

- Revenues remained flat at ₹ 832 crore (P&A volume grew 17%)
- EBITDA also remained flat at ₹ 79 crore with margins at 9.5% (30 bps YoY contraction)
- However, PAT fell 15% to ₹ 43 crore, due to higher depreciation expense

**What should investors do?** Radico remains on a strong footing even as it faces volatile input inflation (especially in glass – increased 12% from Q3FY23 and ENA). Rapid change in product mix (67% P&A revenues in IMFL) and price hike in its lower margins IMIL business, will help the company to sail over the inflationary environment in the medium term.

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

**Target Price & Valuation:** We value the stock at ₹ 1350 i.e. 48x P/E on FY25E EPS.

### Key triggers for future price performance:

- 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, we remain positive on Globus Spirits.

- Globus Spirits (GSL) is the largest grain-based ENA manufacturer in India with a capacity of 160 million litre. The company is also a supplier of Indian made Indian liquor (IMIL) and premium IMFL in India
- IMIL segment comprised ~42% of FY22 consolidated revenues, with the rest contributed by bulk alcohol (45%) and others (botting and by-products)



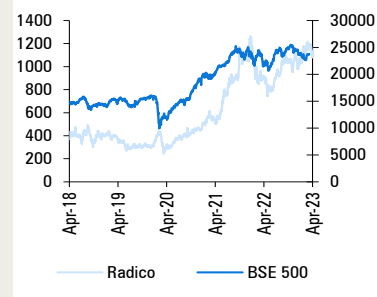
### Particulars

Particulars	Amount
Market Capitalisation (₹ cr)	15609
Total Debt FY23 (₹ cr)	697
Cash & Investments FY23 (₹ cr)	131
EV (₹ cr)	16174
52 Week High / Low (₹)	1223/765
Equity Capital (₹ cr)	27
Face Value (₹ cr)	2.0

### Shareholding pattern

(in %)	Jun-22	Sep-21	Dec-22	Mar-23
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) Supply side disruptions due to incoming general elections

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### Key Financial Summary

₹ crore	FY21	FY22	FY23	5 Years CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	2,418.1	2,868.0	3,142.8	11.5%	3,369.1	3,861.2	7.1%
EBITDA	409.0	402.2	358.4	5.8%	464.9	621.7	20.2%
PAT	277.2	263.2	220.4	12.2%	249.7	375.3	19.4%
P/E (x)	56.3	59.3	70.8		62.5	41.6	
M.Cap/Sales (x)	6.5	5.4	5.0		4.6	4.0	
RoCE (%)	17.3	15.0	9.9		11.2	15.2	
RoE (%)	15.5	13.0	10.0		10.4	13.7	

Source: Company, ICICI Direct Research

## Key takeaways

### Q4FY23 Results: Premiumisation expected to further improve

- P&A volumes have increased to 40% of the IMFL segment via strong growth and rationalisation of popular volumes by the management due to higher input prices
- The management is witnessing softening in certain commodities (paper, PET, etc). However, the overall COGS situation continues to stay volatile in the near term
- Net debt was at ₹ 611 crore in FY23, increasing ₹ 495 crore vs. FY22. The management expects debt to reach ₹ 800 levels in Q2FY23 end as the Sitapur plant commercialises and then progressively reduces via higher FCF generation

### Q4FY23 Earnings Conference Call highlights

- Brands such as Magic Moments Vodka have crossed the 5 million cases mark while others such as Morpheus Brandy and 1965 Spirit of Victory have crossed the 1 million cases mark each
- The 8PM Black has been launched with a new packaging
- Sangam world malt whisky will be launched in the US, UK, EU, Singapore, Australia and travel retail with shipments starting from June, 2023
- The company has received price hikes in the IMFL segment in states such as Uttar Pradesh, Rajasthan, Telangana, etc (equivalent to 1.8% IMFL net sales) and will be reflected in FY24 numbers
- In the IMIL segment, the company has received a price hike in UP, which has commenced from April 1, 23 onwards
- Sitapur distillery operations will start from Q2FY23 onwards
- The total ENA capacity for Radico has reached 21 crore litre. It further uses 7 crore litre from third party sources. Own ENA helps Radico to fetch ₹ 10-11 savings on ENA production
- The company has launched a brand named After Dark in the lower prestige category (which is dominated by McDowell's) in a few states and is cautiously looking at volume growth (since it is a lower margin segment) but boasts 50-60 million market size
- Radico has 30% share in UP IMFL segment and expects to maintain its share amid increasing overall sales in the state
- The management expects to grow its P&A, Popular revenues in FY24 at 15%, 4-5%, respectively, and achieve 15% margins from Q3 onwards

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY22	FY23	FY24E	FY25E
Total Operating Income	2,868.0	3,142.8	3,369.1	3,861.2
Growth (%)	18.6	9.6	7.2	14.6
COGS	1,577.4	1,827.9	1,853.0	2,046.5
Gross Profit	1,290.6	1,314.9	1,516.1	1,814.8
Gross Profit Margins (%)	45.0	41.8	45.0	47.0
Employee Expenses	141.3	168.9	175.2	189.2
SG&A	313.7	329.0	370.6	424.7
Other Expenditure	433.5	458.6	505.4	579.2
Total Operating Expenditure	2,465.8	2,784.5	2,904.2	3,239.6
EBITDA	402.2	358.4	464.9	621.7
Growth (%)	-1.7	-10.9	29.7	33.7
Interest	13.1	22.1	52.3	38.3
Depreciation	64.9	70.9	114.9	120.9
Other Income	7.4	9.4	13.5	15.4
PBT before Exceptional Items	331.6	274.7	311.3	477.9
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	331.6	274.7	311.3	477.9
Total Tax	83.1	70.4	78.3	120.3
PAT	248.5	204.4	232.9	357.6
Profit from Associates	14.7	16.0	16.8	17.6
Adjusted PAT	263.2	220.4	249.7	375.3
EPS Growth (%)	-5.0	-16.3	13.3	50.3
EPS (Adjusted)	19.7	16.5	18.7	28.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	26.7	26.7	26.7	26.7
Reserve and Surplus	2,000.1	2,181.2	2,384.8	2,714.1
Total Shareholders funds	2,026.9	2,207.9	2,411.6	2,740.8
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	189.9	696.8	746.8	546.8
Deferred Tax Liability	76.9	77.8	81.6	85.7
Long-Term Provisions	11.1	12.1	12.4	12.6
Other Non Current Liabilities	0.1	0.2	0.2	0.2
Source of Funds	2,304.9	2,994.8	3,252.5	3,386.1
Gross Block - Fixed Assets	1,130.4	1,614.9	1,914.9	2,014.9
Accumulated Depreciation	309.8	380.7	495.6	616.5
Net Block	820.6	1,234.2	1,419.3	1,398.4
Capital WIP	30.3	326.9	65.4	52.3
Fixed Assets	850.9	1,561.1	1,484.7	1,450.7
Investments	175.5	191.4	391.4	591.4
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	143.0	85.7	87.4	89.1
Inventory	536.9	715.4	646.1	740.5
Debtors	755.8	824.1	876.9	1,005.0
Loans and Advances	24.3	22.3	22.5	22.7
Other Current Assets	184.7	188.0	191.7	195.6
Cash	110.1	131.3	305.0	96.5
Total Current Assets	1,611.7	1,881.0	2,042.3	2,060.3
Creditors	235.4	274.9	294.7	337.7
Provisions	17.3	65.4	66.7	68.0
Other Current Liabilities	223.5	384.1	391.8	399.6
Total Current Liabilities	476.2	724.3	753.1	805.3
Net Current Assets	1,135.4	1,156.7	1,289.2	1,254.9
Application of Funds	2,304.9	2,994.8	3,252.6	3,386.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March) (₹ crore)	FY22	FY23	FY24E	FY25E
Profit/(Loss) after taxation	263.2	220.4	249.7	375.3
Add: Depreciation & Amortization	64.9	70.9	114.9	120.9
Add: Interest Paid	13.1	22.1	52.3	38.3
Net Increase in Current Assets	-6.8	-248.2	12.5	-226.5
Net Increase in Current Liabilities	-71.0	248.1	28.8	52.2
Others	38.0	4.8	0.0	0.0
CF from Operating activities	221.0	238.7	458.1	360.1
(Purchase)/Sale of Fixed Assets	-67.0	-704.5	-38.5	-86.9
Long term Loans & Advances	0.0	0.0	0.0	0.0
Investments	18.6	-15.9	-200.0	-200.0
Others	38.0	4.8	0.0	0.0
CF from Investing activities	-99.6	-656.2	-236.1	-284.3
(inc)/Dec in Loan	-82.2	506.9	50.0	-200.0
Dividend & Dividend tax	-46.0	-46.0	-46.0	-46.0
Less: Interest Paid	-13.1	-22.1	-52.3	-38.3
Other	0.0	0.0	0.0	0.0
CF from Financing activities	-141.3	438.7	-48.3	-284.3
Net Cash Flow	-19.8	21.2	173.7	-208.5
Cash and Cash Equivalent at the	130.0	110.1	131.3	305.0
Cash	110.1	131.3	305.0	96.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Reported EPS	19.7	16.5	18.7	28.1
BV per share	151.9	165.5	180.8	205.4
Cash per Share	8.3	9.8	22.9	7.2
Dividend per share	3.5	3.5	3.5	3.5
Operating Ratios (%)				
Gross Profit Margins	45.0	41.8	45.0	47.0
EBITDA margins	14.0	11.4	13.8	16.1
PAT Margins	9.2	7.0	7.4	9.7
Inventory days	68.3	83.1	70.0	70.0
Debtor days	96.2	95.7	95.0	95.0
Creditor days	30.0	31.9	31.9	31.9
Asset Turnover	2.5	1.9	1.8	1.9
Return Ratios (%)				
RoE	13.0	10.0	10.4	13.7
RoCE	15.0	9.9	11.2	15.2
RoIC	15.6	11.3	12.1	15.5
Valuation Ratios (x)				
P/E	59.3	70.8	62.5	41.6
EV / EBITDA	39.0	45.1	34.5	25.8
EV / Net Sales	5.5	5.1	4.8	4.2
Market Cap / Sales	5.4	5.0	4.6	4.0
Price to Book Value	7.7	7.1	6.5	5.7
Solvency Ratios				
Debt / EBITDA	0.5	1.9	1.6	0.9
Debt / Equity	0.1	0.3	0.3	0.2
Current Ratio	3.2	2.4	2.3	2.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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