

New launches, back-end integration to revive 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)

Q4FY22 Results: Margins were impacted due to a sharp rise in input costs.

- Net revenues grew 18% YoY to ₹ 813 crore, IMFL volume grew 16% YoY
- EBITDA de-grew 21% to ₹ 80 crore with margins at 9.8% (vs. 14.7% in Q4FY21)
- Subsequently, PAT de-grew 32% to ₹ 50 crore

What should investors do? In spite of the current inflationary environment being faced by the liquor sector, Radico has been steadily building up its premium portfolio (31% of volumes). Also, with its vertically integrated model and price hikes in a few states, it remains resilient in the medium to long term.

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

Target Price & Valuation: We value the stock at ₹ 960 i.e. 33x P/E on FY23E 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
- Nearing net-debt free status with return ratios reaching 20%+ levels

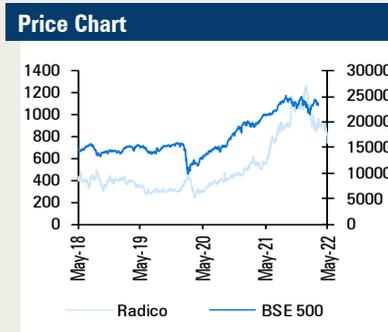
Alternate Stock Idea: Besides Radico Khaitan, we remain positive on United Spirits.

- 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 ₹ 960



Particulars	Amount
Market Capitalisation (₹ cr)	10673
Total Debt FY22 (₹ cr)	190
Cash & Investments FY22 (₹ cr)	110
EV (₹ cr)	10753
52 Week High / Low (₹)	1294/609
Equity Capital (₹ cr)	27
Face Value (₹ cr)	2.0

Shareholding pattern				
(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	40.3	40.3	40.3	40.3
Others	59.7	59.7	59.7	59.7



- 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%	3,330.7	3,890.6	16.5%
EBITDA	371.8	409.0	402.2	13.7%	433.0	622.5	24.4%
PAT	229.1	277.2	263.2	26.8%	240.7	390.6	21.8%
P/E (x)	46.6	38.5	40.5		44.3	27.3	
M.Cap/Sales (x)	4.4	4.4	3.7		3.2	2.7	
RoCE (%)	16.1	17.3	15.1		11.8	17.4	
RoE (%)	16.4	15.5	13.2		11.0	15.4	

Source: Company, ICICI Direct Research

Key takeaways

Q4FY22 Results: Margin deterioration expected to be countered via price hikes, backend integration (Rampur in Q3) and premium launches

- Two-thirds of the raw material consists of ENA and glass, which are seeing higher volatility. Rest one-third consists of PET and paper, which are also seeing price inflation
- The company will build a new greenfield 330 KPLD grain based ENA distillery at Sitapur, taking total Radico owned distillation capacity to 21.7 crore litre
- Net debt was at ₹ 116 crore in FY22 vs. ₹ 190 crore in FY21

Q4FY22 Earnings Conference Call highlights

- For FY22, liquor industry has grown 13% whereas Radico has grown 18%
- 8 PM Black clocked 2 million cases in FY22, post clocking 1 million cases in FY21. The brand is available in 20 states
- Royal Ranthambore and Magic Moments Dazzle Vodka has been launched in seven states while Premium Gin is available in 12 states in FY22
- The commencement date for both plants (Rampur and Sitapur) is Q3FY23 and beginning of Q1FY24. Total capex required to execute the projects is at ₹ 740 crore (which includes ₹ 340 crore of long term borrowings)
- Radico targets 13-15% revenue growth in FY23
- The management expects to revert back to mid-teen margins in the medium term (FY24)
- Gross margins (GMs) are expected to remain subdued in the near term. For FY23E, the company expects a mix of back-end integration, price hikes (in some states) and premiumisation to kick in normalisation of GMs
- The management is in the process of building its on-trade channel team (currently contributes mere ~5% of revenues). Also, increased brands in the portfolio would drive better targeting of the segment
- Peak debt in FY23 is expected at ~₹ 600-610 crore

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	3,330.7	3,890.6
Growth (%)	-0.4	18.6	16.1	16.8
COGS	1,202.4	1,577.4	1,865.2	2,062.0
Gross Profit	1,215.7	1,290.6	1,465.5	1,828.6
Gross Profit Margins (%)	50.3	45.0	44.0	47.0
Employee Expenses	176.3	141.3	166.5	194.5
SG&A	316.5	313.7	366.4	428.0
Other Expenditure	313.9	433.5	499.6	583.6
Total Operating Expenditure	2,009.2	2,465.8	2,897.7	3,268.1
EBITDA	409.0	402.2	433.0	622.5
Growth (%)	10.0	-1.7	7.7	43.8
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	301.0	500.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	353.1	331.6	301.0	500.4
Total Tax	82.5	83.1	75.8	125.9
PAT	270.6	248.5	225.3	374.4
Profit from Associates	6.6	14.7	15.4	16.2
Adjusted PAT	277.2	263.2	240.7	390.6
EPS Growth (%)	21.0	-5.0	-8.6	62.3
EPS (Adjusted)	20.8	19.7	18.0	29.3

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	1,971.1	2,165.8	2,510.4
Total Shareholders funds	1,792.9	1,997.8	2,192.5	2,537.1
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	2,894.6	3,043.4
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	501.9	586.3
Debtors	697.5	755.8	1,003.8	1,172.5
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	77.0	20.5
Total Current Assets	1,624.7	1,611.7	1,795.6	1,996.2
Creditors	261.9	304.3	365.0	426.4
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	605.4
Net Current Assets	1,077.5	1,135.4	1,255.0	1,390.8
Application of Funds	2,167.1	2,275.9	2,894.6	3,043.4

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	240.7	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	-217.0	-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	233.2	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	-33.1	-56.5
Cash and Cash Equivalent at the	18.2	130.0	110.1	77.0
Cash	130.0	110.1	77.0	20.5

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	18.0	29.3
BV per share	134.4	149.8	164.3	190.2
Cash per Share	9.7	8.3	5.8	1.5
Dividend per share	2.8	3.5	3.5	3.5
Operating Ratios (%)				
Gross Profit Margins	50.3	45.0	44.0	47.0
EBITDA margins	16.9	14.0	13.0	16.0
PAT Margins	11.5	9.2	7.2	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	11.0	15.4
RoCE	17.3	15.1	11.8	17.4
RoIC	17.8	15.8	12.2	16.7
Valuation Ratios (x)				
P/E	38.5	40.5	44.3	27.3
EV / EBITDA	26.4	26.7	25.9	17.8
EV / Net Sales	4.5	3.7	3.4	2.8
Market Cap / Sales	4.4	3.7	3.2	2.7
Price to Book Value	6.0	5.3	4.9	4.2
Solvency Ratios				
Debt / EBITDA	0.7	0.5	1.4	0.7
Debt / Equity	0.2	0.1	0.3	0.2
Current Ratio	2.7	3.2	3.2	3.3
Quick Ratio	1.8	2.0	2.3	2.3

Source: Company, ICICI Direct Research

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