

Q2FY24: Improvement in profitability on account of price increase and premiumisation

- Total IMFL volume of 6.96mn cases, declined 3.1% YoY. Prestige and above category sales grew 36% YoY on account of 22% volume growth and 12% increase in realisation.
- Prestige & above brands volume of 2.84mn cases (21.8% YoY) and its contribution to the total IMFL volumes stood at 47.1% (vs. 37.9%)
- Prestige & above brands contribution to the Total IMFL sales value of 70.0% (vs. 59.2%)
- Net sales increased by 25.1% to ₹925crs. Gross profit grew 29.1% YoY to ₹408crs margin expanded 259bps to 44.1%
- EBITDA margin expanded 127bps to 13% YoY.

Important Statistics

Nifty	19,449
Sensex	65,000
M.CAP (₹ Cr)	₹18,517
52 Week H/L (₹)	₹1,478/910
NSE Code	RADICO
BSE Code	532497
Bloomberg Code	RDCK:IN

Shareholding pattern (%)	Sep'23
Promoter	40.26
FII	18.18
DII	23.92
Public & Others	17.63

Key takeaways from Q2FY24 result
Volumes Growth:

- Radico Khaitan (RDCK) reported a strong performance in P&A (Prestige & above) brands with 22%/36% volume/value growth and 11% realization growth.
- Profitability improved due to price increases received in non-IMFL business and IMFL portfolio coupled with premiumization of the portfolio.

Gross Margin:

- Gross Margin during the quarter was 44.1% compared to 41.6% in Q2FY23 and 43.6% in Q1FY24. On Y-o-Y basis, gross margin improved significantly due to the price increases and ongoing premiumization in the IMFL business coupled with price increases received in the Country Liquor business. On Q-o-Q basis, despite commodity inflation in the ENA and grain prices the company has been able to sustain Gross Margins
- Although, prices of certain packaging materials have softened recently, the company has been cautiously monitoring the trends of ENA and glass bottles where volatility persists.
- The company has also received a price hike of 6% in the CSD channel.

Operating efficiency:

- EBITDA increased 29.1% YoY at ₹119crs and margin expanded 30 bps to 12.5%. PAT increased by 8.5% to ₹63crs.
- Employee benefit expenses increased by 21% y-o-y to ₹48.6crs and 18% QoQ. Selling & distribution expenses increased by 39% YoY to ₹101.4crs.
- The Company's strategy is to continue to make prudent marketing investments over existing core brands and new launches to sustain the growth and market share. During Q2FY24, A&SP as 5.3% of IMFL sales compared to 4.0% in Q2FY23. On a quarterly basis, the amount may vary but expect to maintain A&SP spend around 6% to 8% of IMFL revenues to be able to drive the sales momentum.

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
Radico	34	46	29
Nifty 50	6.9	55.9	83.5
Sensex	6.5	52.6	84.9

Source: Company, Way2Wealth Research

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- The Company has incurred ₹834crs on the Rampur Dual Feed and Sitapur Green Field projects since inception.
- Other expenses increased by 21% YoY. Finance cost was at ₹12.5crs vs ₹4crs in Q1FY23

➤ Net Debt:

- Net debt as of Sep'23 stands at ₹771crs vs ₹720crs in Jun'23. There was an increase in Net Debt of ₹160.4crs after Capex on new projects of ₹156crs since Mar'23.
- There would be gradual reduction in debt post Q3 and management expects negligible debt by FY26.

As of Junr'23	₹ Cr
Total Debt	826
Cash & Cash Equivalent	(54.9)
Net Debt	771

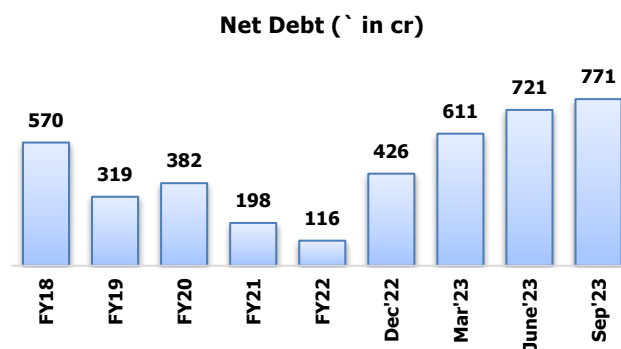
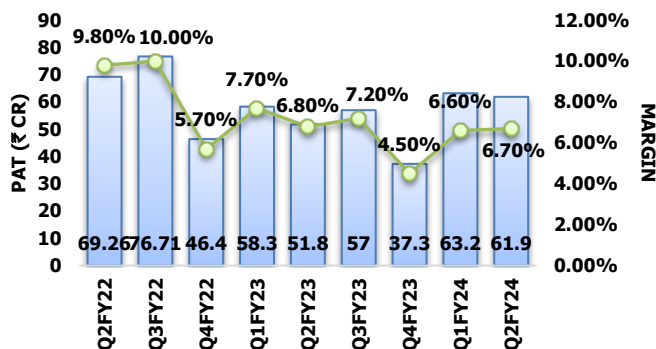
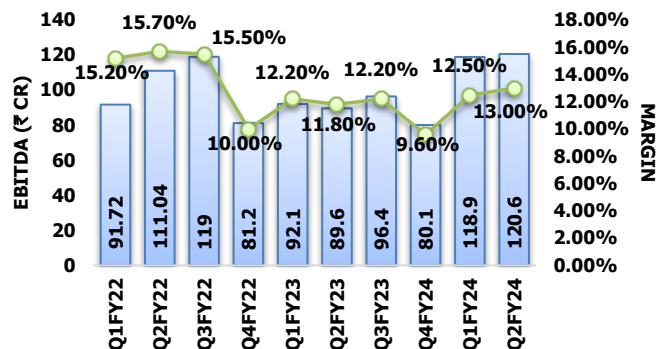
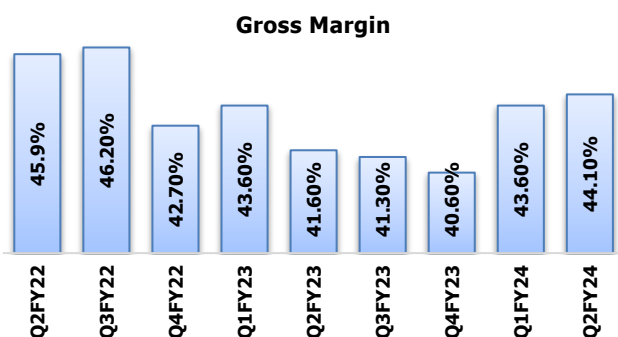
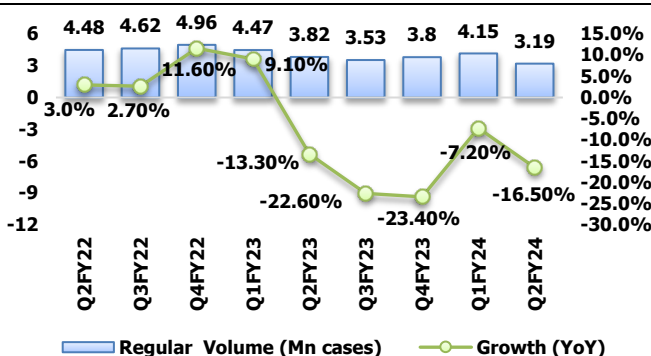
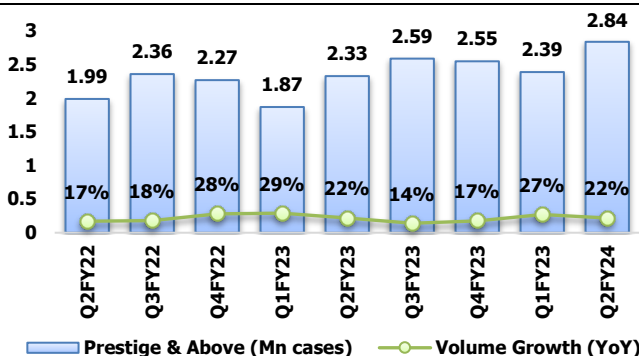
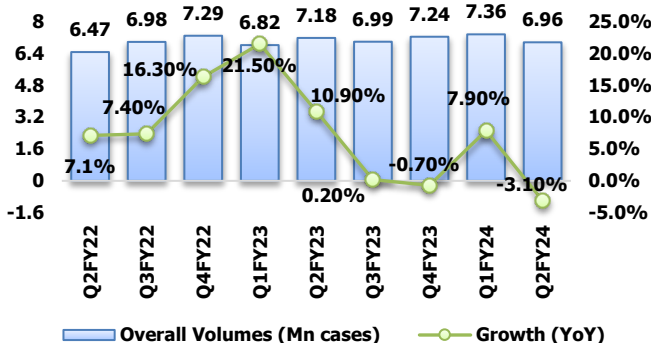
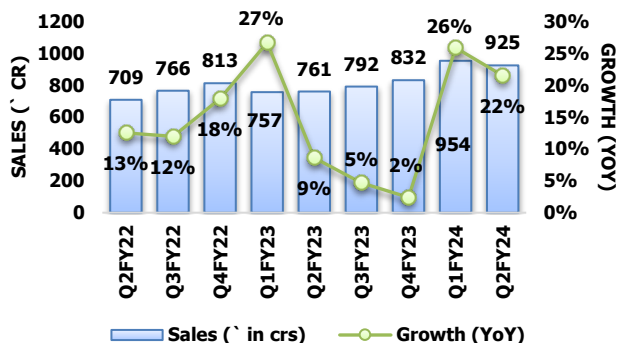
- **Products** – Jaisalmer Gin is highest selling global brand, priced at ₹4,000 per bottle and the company has a 60% market share in that category. Happiness Gin is priced at ₹2,000 per bottle and initially launched in Haryana, Delhi, Goa, Rajasthan and UP and it would largely compete with Indian brands. 1965 is most premium rum in India and has 10% market share in defense segment showing robust demand.
- **Capex** – 2HFY24 capex would be ₹125crs. From FY25 onwards, the capex would be in the range of ₹75-100crs per year.
- Radico Khaitan is very well placed to benefit from the strong premiumization trend of the Indian spirits industry.

9th November 2023

CMP – ₹1385/-

View – **Accumulate on corrections**

Story in charts



Source: Company, Way2Wealth Research

Risks

- Inflation in raw material prices
- Any change in rules and regulations by the respective state governments with regard to IMFL industry can impact the business.

View

Radico posted healthy volume growth of Prestige and above category of 22% in Q2FY24 and management is confident of achieving double-digit growth going forward. We expect demand momentum to improve with the upcoming festive season. The recent commissioning of the greenfield grain distillery at Sitapur is a significant milestone development in the history of Radico Khaitan and augurs well for future growth trajectory. This should also drive the EBITDA margin to its historic level of 15-16% going forward.

We feel Radico Khaitan is a good long term play considering its consistent performance.

At its CMP of ₹1385/-, the stock trades at ~84.4 to its TTM earnings of ₹16.4. Considering the track record of execution, the stock is currently trading at an expensive valuation. **We, therefore, recommend long term investors to accumulate this stock on corrections.**

9th November 2023

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Quarterly Performance

(₹ Cr)

	Q2FY24	Q2FY23	VAR	Q1FY24	VAR	H1FY24	H1FY23	VAR
Gross Sales	3715.05	3018.56	23.10%	4023.3	-7.70%	7738.35	6202.36	24.80%
Excise duty on Sales	2790.05	2257.17	%	3069.39		5859.44	4683.54	%
Net Sales (Net of Excise Duty)	925	761.39	21.50%	953.91	-3.00%	1878.91	1518.82	23.70%
Other Income	0.69	0.94	-26.60%	1.12	-38.40%	1.81	5.31	-65.90%
TOTAL INCOME	925.7	762.3	21.40%	955	-3.10%	1880.7	1524.1	23.40%
Total Raw Material Cost	516.7	445	16.10%	538	-4.00%	1054.7	872.6	20.90%
Cost of Raw Material & Components Consumed	545.52	472.54	15.40%	549.39	-0.70%	1094.91	934.64	17.10%
(Increase)/ Decrease in Inventories	-28.31	-28.02	1.00%	-10.33	174.10%	-38.64	-62.26	-37.90%
Purchase of Traded Goods	-0.52	0.52	-200.00%	-1.07	-51.40%	-1.59	0.17	-1035.30%
<i>Total Raw Material Cost % to Sales</i>	<i>55.90%</i>	<i>58.50%</i>		<i>56.40%</i>		<i>56.10%</i>	<i>57.40%</i>	
Employee Cost	48.63	40.18	21.00%	41.33	17.70%	89.96	76.61	17.40%
<i>Employee Cost % to Sales</i>	<i>5.30%</i>	<i>5.30%</i>		<i>4.30%</i>		<i>4.80%</i>	<i>5.00%</i>	
Selling & Distribution Expenses	101.37	73.16	38.60%	107.81	-6.00%	209.18	167.2	25.10%
<i>Selling & Distribution Expenses % of Sales</i>	<i>11.00%</i>	<i>9.60%</i>		<i>11.30%</i>		<i>11.10%</i>	<i>11.00%</i>	
Other Expenses	137.11	112.94	21.40%	147.27	-6.90%	284.38	219.87	29.30%
<i>Other Expenses % of Sales</i>	<i>14.80%</i>	<i>14.80%</i>		<i>15.40%</i>		<i>15.10%</i>	<i>14.50%</i>	
TOTAL EXPENDITURE	803.8	671.3	19.70%	834.4	-3.70%	1638.2	1336.2	22.60%
EBIDTA	121.2	90.1	34.60%	119.5	1.40%	240.7	182.6	31.80%
<i>EBIDTA Margin %</i>	<i>13.10%</i>	<i>11.80%</i>		<i>12.50%</i>		<i>12.80%</i>	<i>12.00%</i>	
Finance Costs	12.47	4.05	207.90%	12.27	1.60%	24.74	7.02	252.40%
PBDT	109.4	87	25.80%	108.4	1.00%	217.8	180.9	20.40%
Depreciation, Ammortization & Impairment	26.12	17.19	51.90%	24.34	7.30%	50.46	33.92	48.80%
PBT before Tax	83.3	69.8	19.40%	84	-0.90%	167.3	147	13.90%
Tax	21.43	17.96		20.79	#REF!	42.22	36.86	
<i>Tax Rate %</i>	<i>25.70%</i>	<i>25.70%</i>		<i>24.70%</i>		<i>25.20%</i>	<i>25.10%</i>	
Reported Profit before share in profit of joint venture	61.9	51.8	19.40%	63.2	-2.20%	125.1	110.1	13.60%
<i>PAT Margin %</i>	<i>6.70%</i>	<i>6.80%</i>		<i>6.60%</i>		<i>6.70%</i>	<i>7.20%</i>	
Share of net profit/(loss) in Associates and Joint Ventures using equity method	3	2.7		5		8.01	6.39	
Net profit for the period	64.8	54.5		68.3		133.1	116.5	
Other Comprehensive Income (net of tax)	-0.5	-0.4		-0.5		-0.98	0.17	
Total Comprehensive Income	64.3	54.1	18.90%	67.8	-5.10%	132.1	116.7	13.30%
Basic:								
EPS	4.82	4.05	18.90%	5.07	-5.10%	9.89	8.73	13.30%
Equity	26.7	26.7	0.00%	26.7		26.7	26.7	0.00%
Face Value	2	2		2		2	2	

Source: Company, Way2wealth Research

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Disclosure of Interest Statement Radico Khaitan Ltd. (Radico) as on 09 November 2023

Name of the Security	Radico Khaitan Ltd. (Radico)
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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