

Q3FY22: Strong volume amidst inflationary pressure
Important Statistics

- Total IMFL volume of 6.98mn cases (7.4% YoY).
- Prestige & above brands volume of 2.36mn cases (18.2% YoY).
- Net sales increased by 12% to ₹766Cr
- Due to inflationary pressure, gross margin contracted from 50.8% to 46.2% YoY.
- EBITDA declined 4.2% and margin contracted to 15.5% (260 bps) YoY.

M.CAP (₹ cr)	₹12,730
52 Week H/L (₹)	₹1,300/495
NSE Code	RADICO
BSE Code	532497

Key takeaways from Q3FY22 result

➤ **Volumes Growth**

- Radico Khaitan's net sales grew 12% to ₹766Cr. Total IMFL volume growth was 7.4% y-o-y led by Prestige & Above category volume growth of 18.2%. Prestige & Above net revenue growth was 21.5% compared to Q3FY2021. IMFL sales value accounted for 82.1% (vs. 81.7% in Q3FY2021) of the Revenue from Operations (Net).

➤ **Gross Margin:**

- Gross Margin during the quarter was 46.2% YoY and has stayed stable on Q-o-Q basis.
- This was impacted due to commodity inflation, particularly in the non-IMFL business. Despite a significant increase in raw material prices, gross margin for the IMFL business were impacted moderately owing to a favorable premium product mix.

➤ **Operating efficiency:**

- EBITDA declined by 4.2% and margin contracted to 15.5% (260 bps) YoY. PAT declined by 4.7% to ₹77Cr. PAT margin stood at 10% vs 11.8% in Q3FY21.
- Employee benefit expenses increased by 9.8% y-o-y to ₹35.3Cr and declined 6.7% QoQ basis.
- Selling & distribution expenses has decreased by 7% YoY to ₹86Cr while QoQ basis it increased by 15%
- Finance cost decreased by 42% y-o-y from ₹5.39Cr to ₹3.12Cr. The company's cost of borrowing is one of the lowest in the industry due to a lower interest environment, stable profitability, strong capital structure and improved liquidity position.

➤ **Continued to invest behind brands:**

- The company's strategy is to continue to make judicious marketing investments over existing core brands and new launches to sustain the growth and market share. On a quarterly basis, the amount may vary but management expect to maintain A&SP to be around 7-8% of IMFL revenues to be able to drive the sales momentum.

➤ **New launches:**

- Royal Crafted Whisky and two variants of Magic Moments Dazzle Vodka which were launched in Oct'21, has received very strong feedback from consumers as well as trade channels for its exclusive blend, exciting packaging and unique market positioning. These brands have now been rolled out in 3 more states – Delhi, Karnataka

Shareholding pattern (%)	Dec'21
Promoter	40.3
Institutions	39.1
Public & Others	20.6

and Haryana after a strong start with UP and Maharashtra.

- In the month of Dec'21, 8PM Premium Black whisky crossed monthly run rate of 2 lakh cases and 8PM family crossed 11 lakh cases. This truly reflects the strong consumer franchise that brands enjoy. Also in the month of Jan'22, the company received the first order from CSD for Rampur Indian Single Malt Whisky and Jaisalmer Indian Craft Gin.

➤ Capex Plan and Debt Free Status by FY25

As of Dec'21	₹ Cr	Comment
Total Debt	198.7	Long term ₹0.05Cr
Cash & Cash Equivalent	(62.6)	
Net Debt	135.35	Reduction of ₹62Cr since Mar'21

1. Expanding existing Rampur (UP)

- In addition to the conversion of Rampur existing 140 KLPD molasses plant into dual feed (Molasses and Grain based), the company will also install DDGS dryer for the existing 100 KLPD grain plant.
- Post conversion grain ENA production at the Rampur campus will increase from 100 KLPD to ~260 KLPD and this will also make the entire Rampur campus 100% self-sufficient on its power requirements using bio fuels (from 71% currently)

2. Greenfield Distillery Sitapur (UP)

- Spread over 100 acres, the new greenfield distillery will not only add to the growth of the company's branded business but also secure ENA supplies to the local manufacturing as well as supplies to the contract bottling units
- In addition to producing 350 KLPD of ENA, Sitapur campus will also have the Bottling capacity of 10 million cases each of IMFL and CL to be set up in phased manner (Q3FY23) and Malt maturation hall keeping in view the future growth potential of Rampur Indian Single Malt
- Given the ample land, this campus will have a scope to double its capacity in the future, including additional malt distillation and craft gin plant
- As per management, both these projects are expected to be return accretive with average RoCE in the range of 20-23% and payback period around 3.5-4 years. Peak total debt to equity ratio is expected to be in the range of 0.30 – 0.40x and expect to be debt free again by FY2025.
- The company will be funding this capex through mix of debt ₹370cr and balance through internal accruals and will be completed by Q1FY24

Production (KL per day)	Existing, Rampur (UP)	Dual Feed Conversion, Rampur (UP)	New Greenfield Distillery, Sitapur (UP)	Total
Molasses Plant 1	140			
Dual Feed Conversion (addition due to conversion)		+20		160
Molasses Plant 2	55			55
Grain	100		330	430
Total Production (KL per Day)	295	20	330	645
Total Production (mn liters per year)	101	7	109	217
Feedstock		Dual Feed – Molasses, Grain	Grain	
Estimated Capex (₹ Cr) (incl. GST)		185	555	740
Long-Term Borrowings (₹ Cr)				370
Commercial Production		Q4 FY2023	Q1 FY2024	

➤ **Guidance:**

- The management remained positive on maintaining strong volume growth in P&A category and aims to achieve high teens EBITDA margin going forward.

➤ **Industry growth vs Radico's growth**

Volume Growth	Industry	Radico Khaitan
FY19	9%	11%
FY20	0.4%	12%
FY21	-14%	-8%
Q2FY22	6-7%	12%
Q3FY22	14%	18.6%

➤ **9MFY22 Performance:**

- Total IMFL volume of 19.06mn Cases (+18.6%)
- Prestige & Above brands volume of 5.84mn Cases (+23.1%)
- Revenue from Operations (Net) of ₹2,078Cr (+20.6%)
- Gross profit of ₹966Cr (9.8%)
- EBITDA of ₹321Cr at 15.5% margin
- Interest costs of ₹10.81Cr (-37.8%)

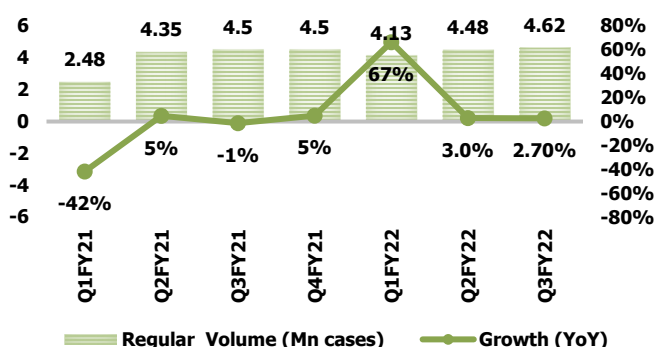
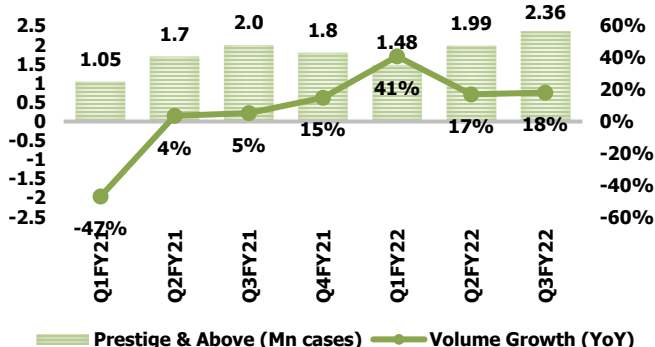
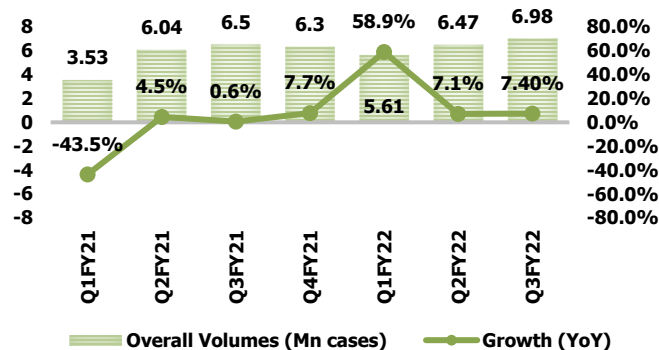
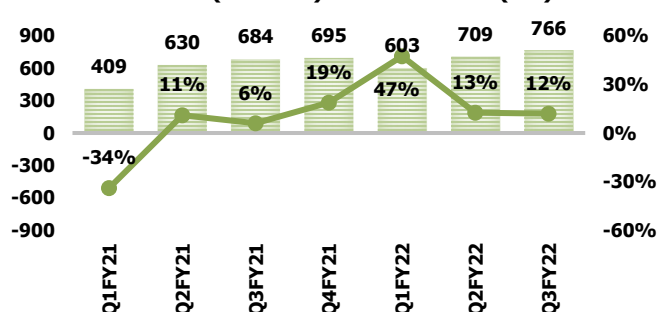
11th February 2022

CMP – ₹957/-

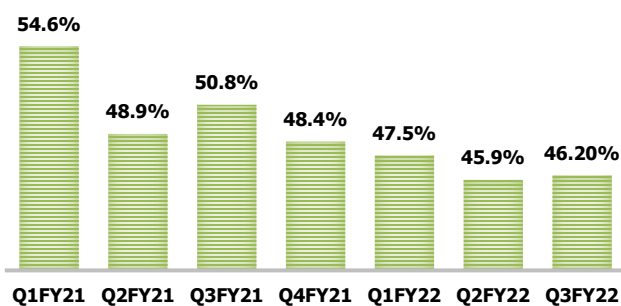
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Story in charts

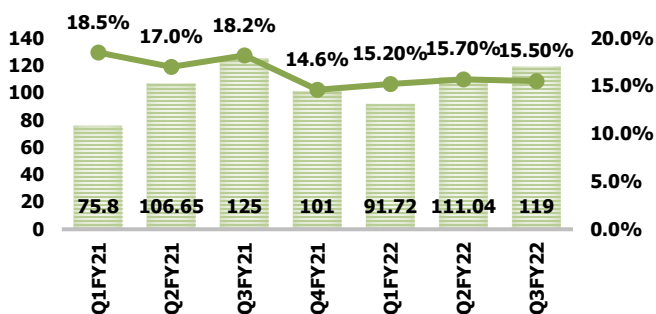
SALES (RS CR) & GROWTH (%)



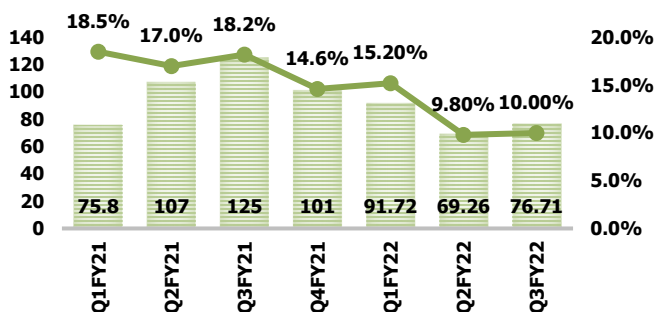
GROSS MARGIN



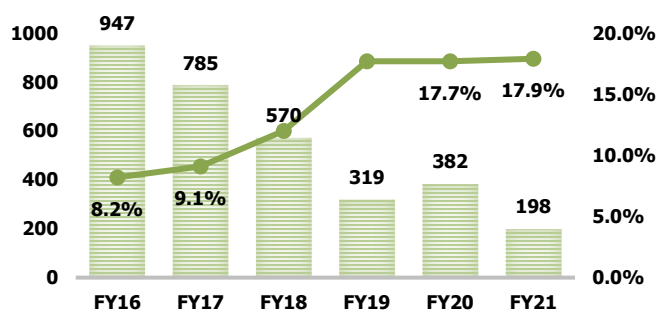
EBITDA (₹ CR) & MARGIN (%)



PAT (₹ CR) & MARGIN (%)



NET DEBT (₹ CR) & ROCE (%)



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

The stock has gained ~1x from Nov'20 levels when we covered the stock around ₹462/share.

We feel Radico Khaitan is a good long term play considering its consistence out performance, margins expansion through premiumisation, new launches in Prestige & Above category, and healthy balance sheet.

At its CMP of ₹957/-, the stock trades at ~45.6 its TTM EPS of ₹21. The Radico Khaitan Ltd stock has corrected by around 25% from its 52-week high and investors can use this opportunity to add this stock on corrections.

Quarterly Performance

(₹ Cr)

	Q3FY22	Q3FY21	VAR[%]	Q2FY22	VAR[%]	9MFY22	9MFY21	VAR[%]
Gross Sales	3306.67	3037.91	8.8%	3077.19	7.5%	9268.15	7571.45	22.4%
Excise duty on Sales	2540.58	2353.7	%	2368.36		7190.46	5848.04	%
Net Sales (Net of Excise Duty)	766.09	684.21	12.0%	708.83	8.1%	2077.69	1723.41	20.6%
Other Operating Income			-		-	0	0	-
Total Operating Income	766.1	684.2	12.0%	708.8	8.1%	2077.7	1723.4	20.6%
Other Income	1.61	2.56	-37.1%	1.75	-8.0%	5.3	8.18	-35.2%
TOTAL INCOME	767.7	686.8	11.8%	710.6	8.0%	2083.0	1731.6	20.3%
Total Raw Material Cost	412.0	336.6	22.4%	383.8	7.4%	1112.0	844.1	31.7%
Cost of Raw Material & Components Consumed	414.4	334.1	24.0%	375.69	10.3%	1124.04	868.51	29.4%
(Increase)/ Decrease in Inventories	-1.99	2.95	-167.5%	8.08	-124.6%	-12.5	-25.66	-51.3%
Purchase of Traded Goods	-0.41	-0.43	-4.7%	0.01	-4200.0%	0.41	1.22	-66.4%
<i>Total Raw Material Cost % to Sales</i>	<i>53.8%</i>	<i>49.2%</i>		<i>54.1%</i>		<i>53.5%</i>	<i>49.0%</i>	
Employee Cost	35.34	32.17	9.9%	37.89	-6.7%	103.83	91.37	13.6%
<i>Employee Cost % to Sales</i>	<i>4.6%</i>	<i>4.7%</i>		<i>5.3%</i>		<i>5.0%</i>	<i>5.3%</i>	
Advertisement & Sales Promotion Expenses	86.09	92.22	-6.6%	75.1	14.6%	237.28	221.95	6.9%
<i>Advertisement & Sales Promotion Expenses % of Sales</i>	<i>11.2%</i>	<i>13.5%</i>		<i>10.6%</i>		<i>11.4%</i>	<i>12.9%</i>	
Other Expenses	113.54	98.62	15.1%	100.6	12.9%	301.96	258.43	16.8%
<i>Other Expenses % of Sales</i>	<i>14.8%</i>	<i>14.4%</i>		<i>14.2%</i>		<i>14.5%</i>	<i>15.0%</i>	
TOTAL EXPENDITURE	647.0	559.7	15.6%	597.4	8.3%	1755.0	1415.8	24.0%
EBIDTA	119.1	124.6	-4.4%	111.5	6.9%	322.7	307.6	4.9%
EBIDTA Margin %	15.5%	18.2%		15.7%		15.5%	17.8%	
Finance Costs	3.12	5.39	-42.1%	3.06	2.0%	10.81	17.39	-37.8%
PBDT	117.6	121.7	-3.4%	110.2	6.8%	317.2	298.4	6.3%
Depreciation, Ammortization & Impairment	16.94	13.55	25.0%	16.17	4.8%	48.49	39.7	22.1%
PBT before Exceptional Items	100.7	108.2	-7.0%	94.0	7.1%	268.7	258.7	3.9%
Exceptional Items			-		-	0	0	-
PBT after Exceptional Items	100.7	108.2	-7.0%	94.0	7.1%	268.7	258.7	3.9%
Tax	23.93	27.64		24.77	#REF!	66.51	61.64	
<i>Tax Rate %</i>	<i>23.8%</i>	<i>25.6%</i>		<i>26.4%</i>		<i>24.8%</i>	<i>23.8%</i>	
Reported Profit After Tax	76.7	80.5	-4.7%	69.2	10.9%	202.2	197.0	2.6%
PAT Margin %	10.0%	11.8%		9.8%		9.7%	11.4%	
Share of net profit/(loss) in Associates and Joint Ventures using equity method	2.5	3.6		3.9		11.02	6.66	
Net profit for the period	79.3	84.1		73.1		213.2	203.7	
Other Comprehensive Income (net of tax)	0.3	0.4		0.3		0.93	1.32	
Total Comprehensive Income	79.6	84.5	-5.9%	73.4	8.4%	214.1	205.0	4.4%
EPS	5.95	6.33	-5.9%	5.5	8.4%	16.0	15.3	4.4%
Equity	26.7	26.7	0.0%	26.7		26.7	26.7	0.0%
Face Value	2.0	2.0		2.0		2.0	2.0	

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Radico Khaitan Ltd. (Radico) as on February 11, 2022

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
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