

Q1FY23: Strong operating performance led by Prestige & Above Category
Important Statistics

- Total IMFL volume of 6.82 mn cases (+21.5% YoY).
- Prestige & above brands volume of 1.87 mn cases (29.1% YoY).
- Prestige & Above brands contribution to the total IMFL volumes of 29.5% (vs. 26.1%)
- Net sales increased by 26.7% to ₹757Cr
- Due to inflationary pressure, gross margin contracted from 47.1% to 43.6% YoY.
- EBITDA was flat at ₹92.1Cr and margin contracted to 12.2% (310 bps) YoY.

M.CAP (₹ Cr)	₹12,663
52 Week H/L (₹)	₹1,143/762
NSE Code	RADICO
BSE Code	532497

Shareholding pattern (%)	Jun'22
Promoter	40.3
Institutions	38.6
Others	21.1

Key takeaways from Q1FY23 result
Volumes Growth:

- Radico Khaitan's net sales grew 26.7% to ₹757Cr. Total IMFL volume growth was 21.5% y-o-y led by Prestige & Above category volume growth of 29.1%. Prestige & Above net revenue growth was 37% compared to Q1FY2022. Prestige & Above brands contribution to the total IMFL sales value of 50% (vs. 46.6%)

Gross Margin:

- Gross Margin during the quarter was 43.6% YoY.
- On Y-o-Y basis, continued commodity inflation resulted in gross margins compression, particularly in the non-IMFL business. Given a favourable product mix change, impact of cost push on the gross margin of the IMFL business was mitigated to a large extent. On a sequential basis, gross margins improved due to price increases in the IMFL business and a favourable product mix.

Price Increase:

- Radico took a 3% price hike in the IMFL segment. The hike was taken in a few states like Uttar Pradesh, Madhya Pradesh, Uttarakhand, Assam, Rajasthan, and Jharkhand. This coupled with the backward integration benefit from Rampur dual feed plant is expected to support profitability improvement during the second half of FY2023.
- The management is witnessing softening in certain commodities on the back of a normal rainfall. However, the overall COGS situation continues to stay volatile in the near term

Operating efficiency:

- EBITDA was flat at ₹92Cr and margin contracted to 12.2% (310 bps) YoY. PAT declined by 2.6% to ₹58.3Cr. PAT margin stood at 7.7% vs 10% in Q1FY22.
- Employee benefit expenses increased by 19% y-o-y to ₹36Cr and QoQ basis it declined 2.7%.
- Selling & distribution expenses has increased by 32.5% YoY to ₹94Cr while QoQ basis it declined by 4.5%
- Finance cost decreased by 36% y-o-y from ₹4.6Cr to ₹3Cr. The company's

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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.

- Other expenses increased by 22% YoY. The increase in other expenses is due to higher power & fuel cost and other production related overheads.

➤ 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:

- In the month of Feb'22, 8PM Premium Black whisky achieved volumes of 2mn cases and now is available across 20 states. This truly reflects the strong consumer franchise that brands enjoy. Newer products now comprise 10% of Radico's overall volume

➤ Net Debt:

- Net debt as of Jun'22 stands at ₹163Cr vs ₹116Cr in Mar'22. There was an increase in Net Debt of ₹47Cr after Capex on new projects of ₹95Cr since March 2022.

As of Jun'22	₹ Cr
Total Debt	233.6
Cash & Cash Equivalent	(70.6)
Net Debt	163

➤ Capacity Expansion:

○ 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 biofuels (from 71% currently).
- Rampur dual feed plant to be operational by Q3FY2023.

○ 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 (Q1FY24) 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.

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- As per management, both these projects are expected to be return accretive with average ROCE in the range of 20-23%.

➤ **Guidance:**

- The company expects margins to get back to historic level of 16-17% in FY2024 from 14% in FY2022. Backward integration benefit from Rampur dual feed plant is expected to support profitability.
- In the medium to long term, the management expects mid-teen double digit growth in the P&A segment and double digit growth in the popular segment.

➤ **FY22 Performance:**

- Total IMFL volume of 26.35 Million Cases (+17.9%)
- Prestige & Above brands volume of 8.11 Million Cases (+24.5%)
- Revenue from Operations (Net) of ₹2,868Cr (+19.6%)
- Gross profit of ₹1,291Cr (7.9%)
- EBITDA of ₹403Cr at 14% margin
- Interest costs of ₹13.1Cr (-40.5%)

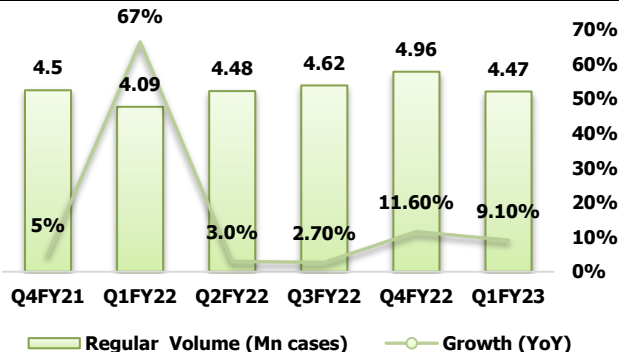
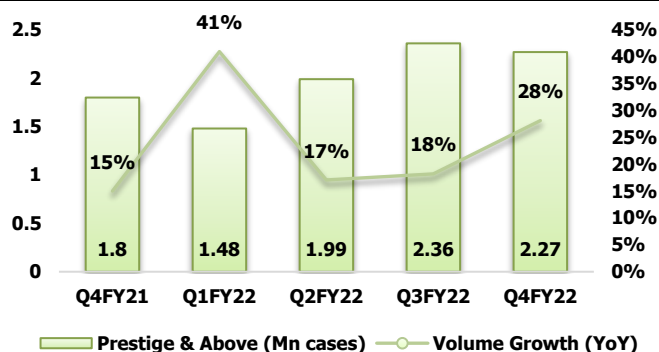
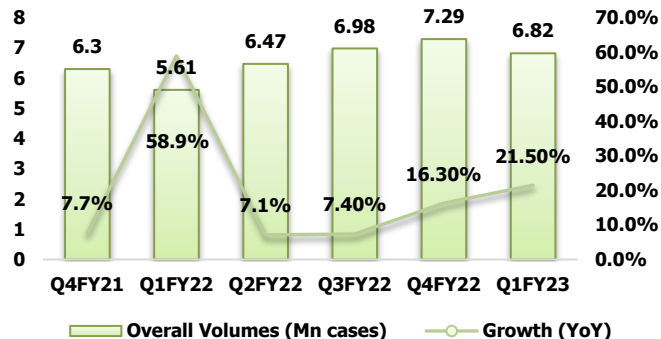
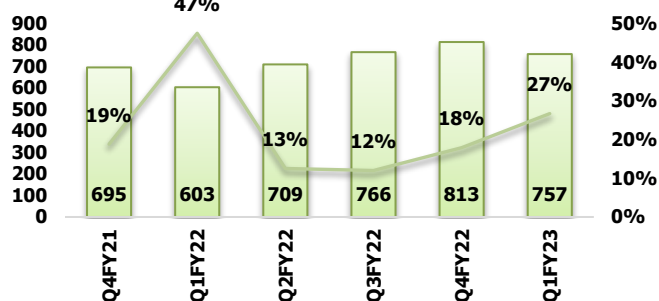
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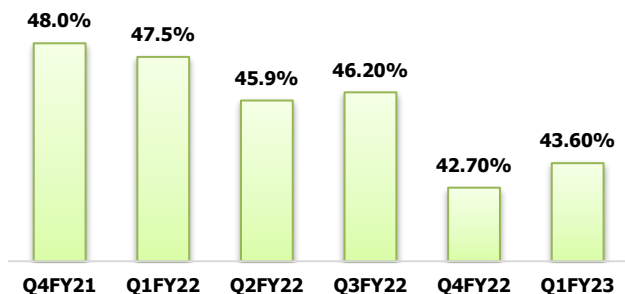
View – **Add on Dips**

Story in charts

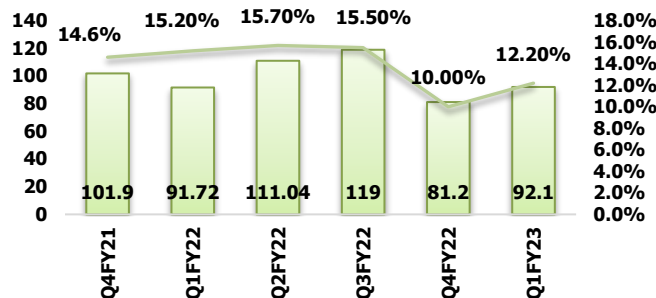
Sales (₹ Cr) & Growth (YoY)



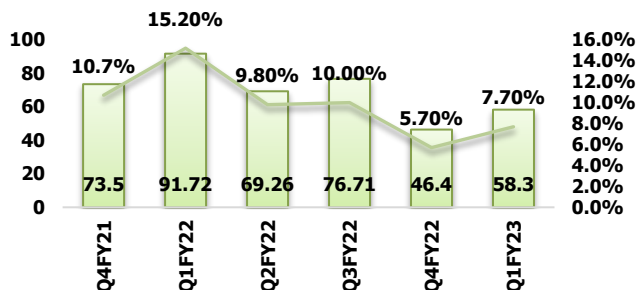
Gross Margin



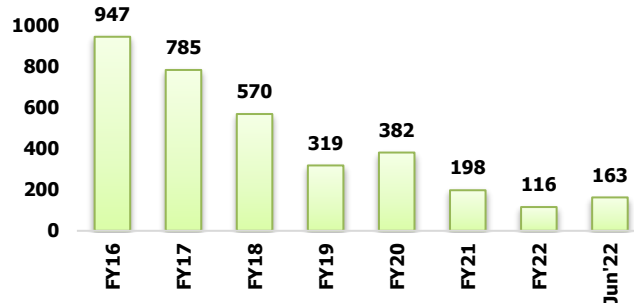
EBITDA (₹ Cr) & Margin (%)



PAT (₹ Cr) & Margin (%)



Net Debt (₹ Cr)



Source: Company, Way2Wealth Research

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 View – **Add on Dips**
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

We feel Radico Khaitan is a good long term play considering its consistence out performance. The company expects margins to get back to historic level of 16-17% in FY2024 from 14% in FY2022, on account of strong portfolio of premium products, backward integration benefits from Rampur dual feed plant and volume increase in the IMFL segment

At its CMP of ₹945/-, the stock trades at ~47.9. its FY22 earnings of ₹19.7. The Radico Khaitan Ltd stock has corrected by around ~27% from its 52-week high and investors can use this opportunity to add this stock on corrections.

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Quarterly Performance

(₹ Cr)

	Q1FY23	Q1FY22	VAR[%]	Q4FY22	VAR[%]	FY22
Gross Sales	3183.8	2879.16	10.6%	3224.45	-1.3%	12492.6
Excise duty on Sales	2426.4	2281.52	%	2411.93		9602.39
Net Sales (Net of Excise Duty)	757.4	597.64	26.7%	812.52	-6.8%	2890.21
Other Operating Income			-		-	0
Total Operating Income	757.4	597.6	26.7%	812.5	-6.8%	2890.21
Other Income	4.37	1.94	125.3%	2.13	105.2%	7.43
TOTAL INCOME	761.8	599.6	27.1%	814.7	-6.5%	2897.64
Total Raw Material Cost	427.5	316.2	35.2%	465.5	-8.2%	1577.43
Cost of Raw Material & Components Consumed	462.1	333.94	38.4%	455.22	1.5%	1579.26
(Increase)/ Decrease in Inventories	-34.24	-18.59	84.2%	8.55	-500.5%	-3.95
Purchase of Traded Goods	-0.35	0.8	-143.8%	1.71	-120.5%	2.12
<i>Total Raw Material Cost % to Sales</i>	<i>56.4%</i>	<i>52.9%</i>		<i>57.3%</i>		<i>54.6%</i>
Employee Cost	36.43	30.6	19.1%	37.42	-2.6%	141.25
<i>Employee Cost % to Sales</i>	<i>4.8%</i>	<i>5.1%</i>		<i>4.6%</i>		<i>4.9%</i>
Selling & Distribution Expenses	94.04	70.96	32.5%	98.5	-4.5%	335.78
<i>Selling & Distribution Expenses % of Sales</i>	<i>12.4%</i>	<i>11.9%</i>		<i>12.1%</i>		<i>11.6%</i>
Other Expenses	106.93	87.81	21.8%	131.49	-18.7%	433.45
<i>Other Expenses % of Sales</i>	<i>14.1%</i>	<i>14.7%</i>		<i>16.2%</i>		<i>15.0%</i>
TOTAL EXPENDITURE	664.9	505.5	31.5%	732.9	-9.3%	2487.91
EBIDTA	92.5	92.1	0.4%	79.6	16.1%	402.3
EBIDTA Margin %	12.2%	15.4%		9.8%		13.9%
Finance Costs	2.97	4.63	-35.9%	2.29	29.7%	13.1
PBDT	93.9	89.4	5.0%	79.5	18.1%	396.63
Depreciation, Ammortization & Impairment	16.73	15.37	8.8%	16.39	2.1%	64.88
PBT	77.2	74.1	4.2%	63.1	22.3%	331.75
Tax	18.9	17.79		16.58	#REF!	83.09
<i>Tax Rate %</i>	<i>24.5%</i>	<i>24.0%</i>		<i>26.3%</i>		<i>25.0%</i>
Reported Profit before share in profit of joint venture	58.3	56.3	3.5%	46.5	25.3%	248.66
PAT Margin %	7.7%	9.4%		5.7%		8.6%
Share of net profit/(loss) in Associates and Joint Ventures using equity method	3.7	4.7		3.7		14.68
Net profit for the period	62.0	60.9		50.2		263.34
Basic:						
EPS	4.64	4.56	1.7%	3.84	20.8%	19.74
Equity	26.7	26.7	0.0%	26.7		26.72
Face Value	2.0	2.0		2.0		2

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Radico Khaitan Ltd. (Radico) as on August 18, 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	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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