

21st February 2023
CMP – ₹1106/-
View – Accumulate on dips
Q3FY23: Sales growth led by Prestige & Above Category
Important Statistics

- Total IMFL volume of 6.99 mn cases (0.2% YoY).
- Prestige & above brands volume of 2.59 mn cases (14.1% YoY).
- Prestige & Above brands contribution to the total IMFL volumes of 42.4% (vs. 33.3%)
- Net sales increased by 4.7% to ₹792Cr
- Due to inflationary pressure, gross margin contracted from 45.5% to 41.3% YoY.
- EBITDA declined 18.8% YoY to ₹96.4Cr and margin contracted to 12.2% (350 bps) YoY.

M.CAP (₹ Cr)	₹14,783
52 Week H/L (₹)	₹1,229/731
NSE Code	RADICO
BSE Code	532497

Key takeaways from Q3FY23 result
Volumes Growth:

- Radico Khaitan's net sales grew 4.7% to ₹792Cr. Total IMFL volume was flat whereas Prestige & Above category volume grew 14.1%. The management has highlighted that the muted overall volume was on account of rationalisation of volumes of certain regular brands which were undertaken on account of the high input prices. Prestige & Above net revenue growth was 19.1% compared to Q3FY22. Prestige & Above brands contribution to the total IMFL sales value of 80.1% (vs. 80.9%)

Shareholding pattern (%)	Dec'22
Promoter	40.27
FII	18.94
DII	23.23
Public & Others	17.57

Gross Margin:

- Gross Margin during the quarter was 41.3% vs 41.6% in Q2FY23 and 45.5% in Q3FY22. A large part of inflation is coming from Glass (up 12% QoQ) and ENA (up 5% QoQ) prices. Inflation in paper and other packaging material prices have started to normalise.
- On Y-o-Y basis, continued commodity inflation resulted in gross margins compression, particularly in the non-IMFL business here company have recently received price increases. Given a favorable 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 company have experienced stabilizing trend in certain commodities, overall commodity scenario still remains volatile.

Price Increase:

- The weighted average price hike has been 3% so far for the state of Kerala, Rajasthan and other southern states. They have also recently received price increases in the non-IMFL business in the state of Uttar Pradesh, this was one of the key pain points for underperformance of the non-IMFL segment in the last two quarters. This price increase is expected to bring the non-IMFL segment from negative to positive EBITDA trajectory.
- This coupled with the backward integration benefit from Rampur dual feed plant is expected to support profitability improvement.

Operating efficiency:

- EBITDA declined 18.8% YoY at ₹96.4Cr and margin contracted to 12.2% (350 bps) YoY. PAT declined by 25.6% to ₹57 Cr.
- Employee benefit expenses increased by 28.9% y-o-y to ₹45.5Cr and QoQ basis it increased 13%.

- Selling & distribution expenses has declined by 2.5% YoY to ₹78.6Cr while QoQ basis it increased by 7.4%. Finance cost increased by 94.8% y-o-y to ₹6.1Cr.

- Other expenses declined by 3% YoY.

➤ **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. During 9MFY23, A&SP as % of IMFL sales was 5.1% vs. 4.9% in 9MFY22. 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.

➤ **Products:**

- Magic Moments Vodka and Morpheus Brandy where YTD volumes have surpassed the full year numbers of FY22. In January 2023, Morpheus Super-Premium Brandy crossed sales volume of 1 mn case during the year and now a part of the 'Millionaire' brands club. Jaisalmer Indian Craft Gin is making exciting progress as RDCK continue to expand its distribution in India and it is available in 15 states now and will be made available pan India soon.

➤ **Net Debt:**

- Net debt as of Dec'22 stands at ₹426.7Cr vs ₹116Cr in Mar'22. There was an increase in Net Debt of ₹310.7Cr after Capex on new projects of ₹471.9Cr since Mar'22.

As of Dec'22	₹ cr
Total Debt	531.0
Cash & Cash Equivalent	(10.3)
Net Debt	426.7

➤ **Capacity Expansion (commissioned):**

- As of January 2023, the company has successfully commissioned the dual feed plant at Rampur. Further, RDCK has commenced the bottling operations at its Sitapur plant, the first phase of their greenfield expansion. This backward integration is expected to further drive the PnA volumes going forward.

➤ **Guidance:**

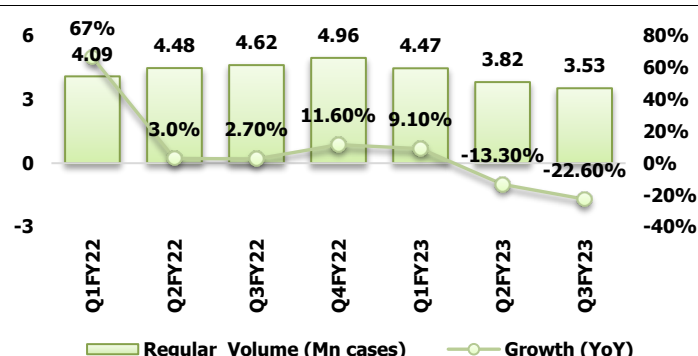
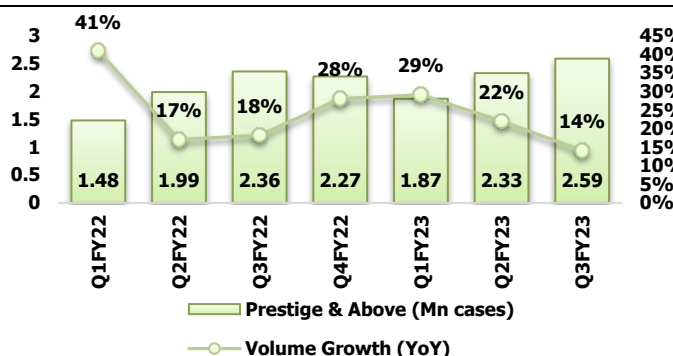
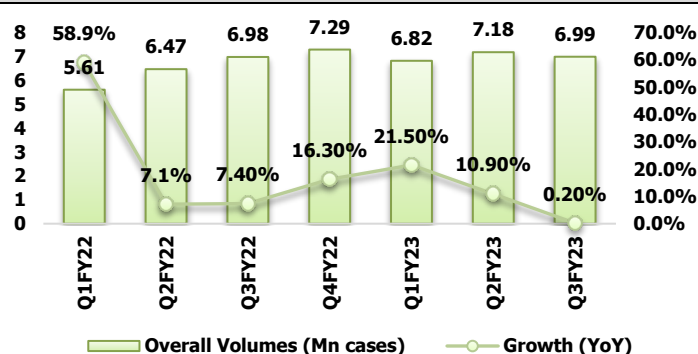
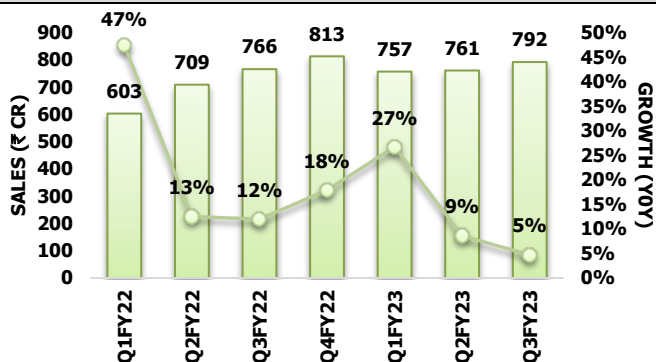
- The company expects margins to get back to historic level of 16-17%. Backward integration benefit from Rampur dual feed plant is expected to support profitability coupled with premiumisation.

21st February 2023

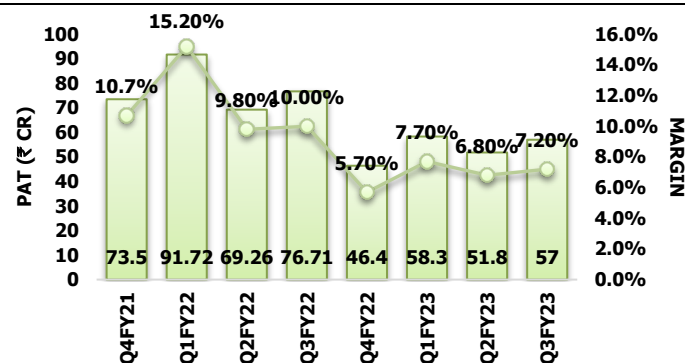
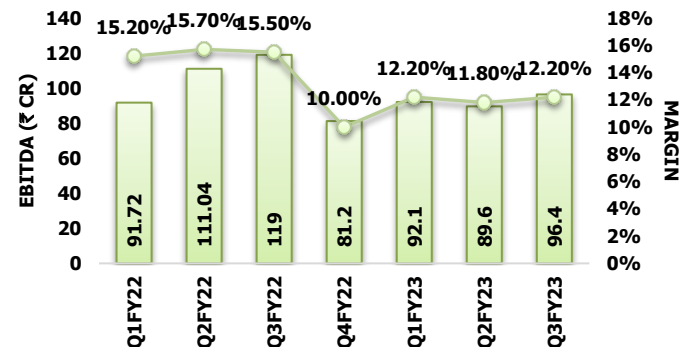
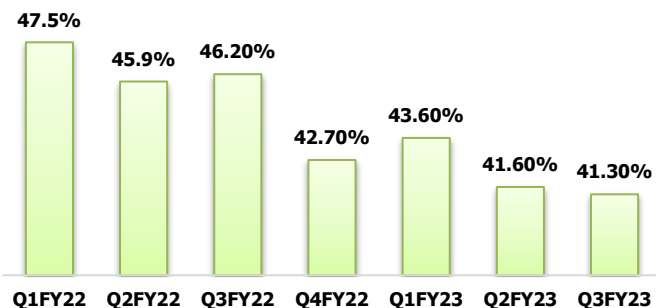
CMP – ₹1106/-

View – Accumulate on dips

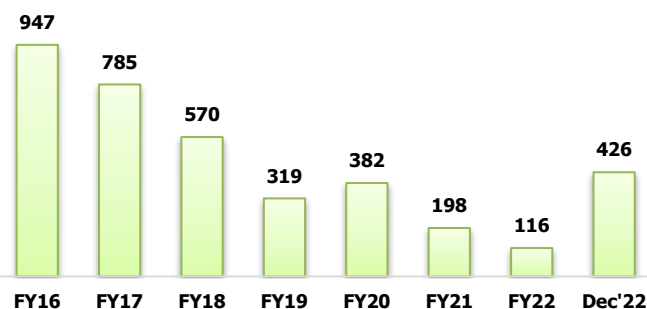
Story in charts



Gross Margin



Net Debt (₹ Cr)



Source: Company, Way2Wealth Research

21st February 2023
CMP – ₹1106/-
View – Accumulate 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

Radico posted healthy volume growth of Prestige and above category of 14.1% in Q3FY23. The weighted average price hike has been 3% so far for the IMFL business. They have also recently received price increases in the non-IMFL business in the state of Uttar Pradesh. This price increase is expected to bring the non-IMFL segment from negative to positive EBITDA trajectory. Also commissioning of Rampur dual-feed unit along with premiumisation aiding in a better sales mix and should drive EBITDA margin to its historic level 16-17% going forward.

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

At its CMP of ₹1097/-, the stock trades at ~68.6. its TTM earnings of ₹15.9. The Radico Khaitan Ltd stock has made recent 52 weeks high of ₹1229/- on 6th Feb,23. We recommend investors to accumulate this stock on corrections.

21st February 2023

CMP – ₹1106/-

View – Accumulate on dips

Quarterly Performance

	Q3FY23	Q3FY22	VAR [%]	Q2FY23	VAR [%]	9MFY2 3	9MFY2 2	VAR [%]
Gross Sales	3166.19	3297.25	-4.0%	3018.56	4.9%	9368.55	9246.05	1.3%
Excise duty on Sales	2374.03	2540.67	%	2257.17		7057.6	7190.55	%
Net Sales (Net of Excise Duty)	792.16	756.58	4.7%	761.39	4.0%	2310.95	2055.5	12.4%
Other Income	2.72	1.61	68.9%	0.94	189.4%	8.03	5.3	51.5%
TOTAL INCOME	794.9	758.2	4.8%	762.3	4.3%	2319.0	2060.8	12.5%
Total Raw Material Cost	464.8	412.0	12.8%	445.0	4.4%	1337.3	1111.9	20.3%
Cost of Raw Material & Components Consumed	469.27	414.4	13.2%	472.53	-0.7%	1403.9	1124.02	24.9%
(Increase)/ Decrease in Inventories	-7.12	-1.99	257.8%	-28.02	-74.6%	-69.38	-12.51	454.6%
Purchase of Traded Goods	2.65	-0.41	-746.3%	0.52	409.6%	2.82	0.4	605.0%
<i>Total Raw Material Cost % to Sales</i>	<i>58.7%</i>	<i>54.5%</i>		<i>58.4%</i>		<i>57.9%</i>	<i>54.1%</i>	
Employee Cost	45.54	35.34	28.9%	40.18	13.3%	122.15	103.83	17.6%
<i>Employee Cost % to Sales</i>	<i>5.7%</i>	<i>4.7%</i>		<i>5.3%</i>		<i>5.3%</i>	<i>5.1%</i>	
Selling & Distribution Expenses	78.58	80.61	-2.5%	73.16	7.4%	245.78	219.12	12.2%
<i>Selling & Distribution Expenses % of Sales</i>	<i>9.9%</i>	<i>10.7%</i>		<i>9.6%</i>		<i>10.6%</i>	<i>10.7%</i>	
Other Expenses	106.38	109.6	-2.9%	112.94	-5.8%	326.25	298.01	9.5%
<i>Other Expenses % of Sales</i>	<i>13.4%</i>	<i>14.5%</i>		<i>14.8%</i>		<i>14.1%</i>	<i>14.5%</i>	
TOTAL EXPENDITURE	695.3	637.6	9.1%	671.3	3.6%	2031.5	1732.9	17.2%
EBIDTA	96.9	119.0	-18.6%	90.1	7.5%	279.4	322.6	-13.4%
EBIDTA Margin %	12.2%	15.7%		11.8%		12.1%	15.7%	
Finance Costs	6.08	3.12	94.9%	4.05	50.1%	13.1	10.81	21.2%
PBDT	93.5	117.5	-20.4%	87.0	7.5%	274.4	317.1	-13.5%
Depreciation, Ammortization & Impairment	17.06	16.94	0.7%	17.19	-0.8%	50.98	48.48	5.2%
Profit Before Tax	76.4	100.6	-24.0%	69.8	9.5%	223.4	268.6	-16.8%
Tax	19.39	23.92		17.96		56.25	66.49	
<i>ax Rate %</i>	<i>25.4%</i>	<i>23.8%</i>		<i>25.7%</i>		<i>25.2%</i>	<i>24.8%</i>	
Reported Profit before share in profit of joint venture	57.0	76.7	-25.6%	51.8	10.1%	167.1	202.1	-17.3%
PAT Margin %	7.2%	10.1%		6.8%		7.2%	9.8%	
Share of net profit/(loss) in Associates and Joint Ventures using equity method	4.2	2.5		2.7		10.59	11.02	
Net profitforthe period	61.2	79.2		54.5		177.7	213.2	
Other Comprehensive Income (net of tax)	-0.4	-0.2		-0.4		-0.37	-0.218	
Total Comprehensive Income	60.9	79.0	-22.9%	54.1	12.5%	177.3	213.0	-16.7%
Basic:								
EPS	4.56	5.91	-22.9%	4.05	12.5%	13.27	15.94	-16.7%
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

Disclaimer

Analyst Certification: I, Ashwini Sonawane the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Ashwini Sonawane, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Radico Khaitan Ltd. (Radico) as on February 21, 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	Yes
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
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.