

22nd February 2021

CMP – ₹555/-

View – Accumulate On Dips

Company Background and Business Model

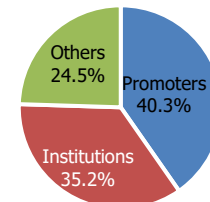
Radico Khaitan Limited is among the oldest and one of the largest manufacturers of Indian Made Foreign Liquor (IMFL) in India. Earlier known as Rampur Distillery, Radico Khaitan commenced its operations in 1943 and over the years emerged as a major bulk spirits supplier and bottler to other spirit manufacturers.

Radico Khaitan is one of the few companies in India to have developed its entire brand portfolio with in-house capabilities. Over the years, Radico Khaitan has been able to successfully expand its premium brand portfolio.

The Company has three distilleries in Rampur (Uttar Pradesh) and two in joint venture RNV in Aurangabad (Maharashtra) in which Radico Khaitan owns 36% equity. The Company has a total capacity of over 157 million liters and operates 28 bottling units spread across the country.

Important Statistics

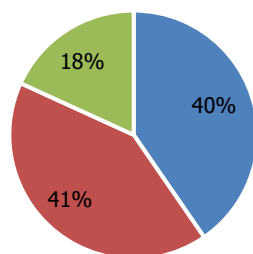
| | |
|-----------------|-----------|
| M.Cap (₹ crs) | ₹7,409 |
| 52 Week H/L (₹) | ₹580/₹220 |
| NSE Code | RADICO |
| BSE Code | 532497 |

**Investment Arguments**

- **Premiumization continues to be a key ingredient for growth** – In the last ten years, Radico Khaitan has been able to successfully expand its premium brand portfolio. The Company has launched twelve new brands over the last decade of which eleven are in the premium category. The focus on premium brands has enabled the company to identify relatively less price-sensitive consumers that ultimately drive value growth. The company is continuously increasing contributions from premium products. This category has delivered robust CAGR volume growth of 12% over FY15-20. Favorable demographics, rising disposable income, and changing social attitudes towards drinking are the key factors driving demand for premium liquor. Besides, state governments have consistently been increasing excise duties on liquor, making it imperative for IMFL companies to focus on premium brands to drive profitability.

Financials

| Particulars | (₹ crs) | | |
|-------------|---------|-------|-------|
| | FY18 | FY19 | FY20 |
| Sales | 1,797 | 2,063 | 2,395 |
| EBITDA | 270 | 351 | 372 |
| EBITDA % | 15.0 | 17.0 | 15.5 |
| PAT | 123 | 188 | 228 |
| EPS | 9.0 | 15 | 17 |
| ROE | 11 | 15 | 15 |
| PE | 61.6 | 37.0 | 32.6 |
| EV/EBITDA | 16.6 | 15.3 | 10.4 |

Revenue Mix

■ Prestige & Above IMFL ■ Regular & others IMFL ■ Non-IMFL

Note* IMFL stands for Indian Made Foreign Liquor

Management Team

Dr Lalit Khaitan – Chairman and MD:
Mr Abhishek Khaitan – MD
Mr. Dilip K Banthiya – CFO

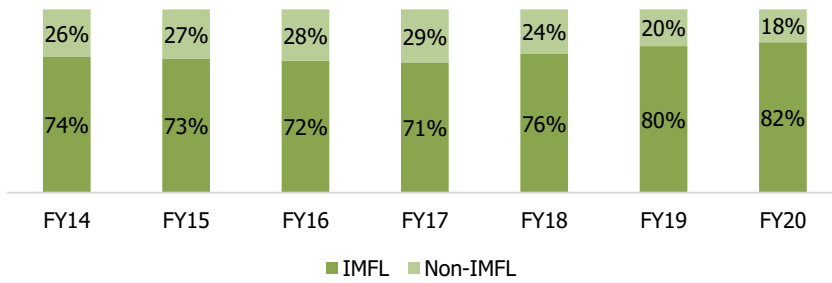
- **New launches in premium category** – The company is expected to launch two new brands in the P&A category in the next two years. With these new launches, the share of premium products to total sales would improve going forward. Apart from the new launches, the company is scaling up existing brands like Rampur, Morpheus, and 8 PM Black. The company also extended the Verve premium vodka portfolio with two new flavors-Lemon Lush and Cranberry Tease.

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IMFL Product Mix



Source: Company, Way2Wealth Research

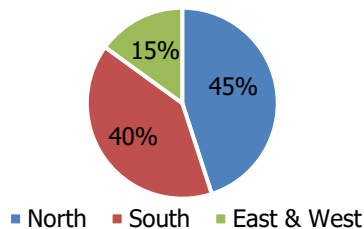
- **Premiumisation would positively impact margins** – EBITDA margins in the prestige category are higher than the regular category. Hence, increasing the share of prestige and above segments will positively impact its margins in the longer run. Further, the higher share of prestige brands would also provide a cushion to the company against raw material price volatility as these have higher gross margins.

| Volume (mn Cases) | FY20 | FY19 | FY18 | FY17 | FY16 | FY15 | CAGR |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Prestige & Above | 7.05 | 6.12 | 5 | 4.749 | 4.4 | 4 | 12.0% |
| Regular & Others | 17.25 | 15.48 | 14.45 | 13.47 | 13.8 | 15.4 | 2.3% |
| Total Volume | 24.3 | 21.6 | 19.5 | 18.2 | 18.2 | 19.4 | 4.6% |
| Prestige & Above as % of Total Volume | 29% | 28% | 26% | 26% | 24% | 21% | |

Source: Company, Way2Wealth Research

- **Wide distribution network** – During the first decade (i.e. 1997-2006), the company focused its efforts on building a strong manufacturing platform, developing a robust pan India distribution network. As a result, RKL has a strong sales and distribution network with a presence in retail and off-products through over 75,000 retail and 8,000 on-premise outlets in the relevant segments in different parts of India. Apart from wholesalers, a total of around 300 employees divided into four zones, each headed by a regional profit center head, ensure an adequate on-the-ground sales and distribution presence across the country.

Region-wise sales

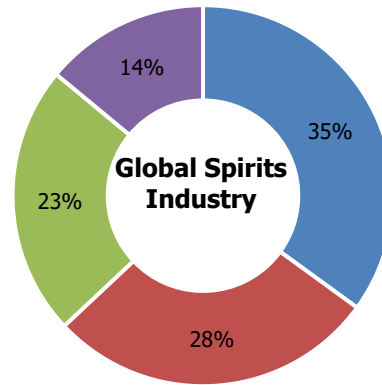
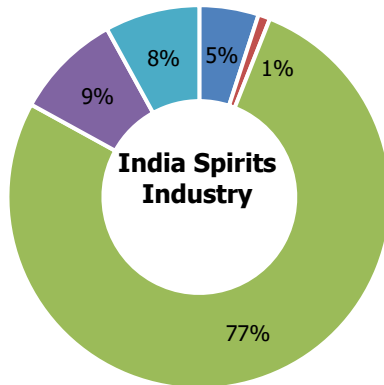


Source: Company, Way2Wealth Research

➤ **Strong Brand Portfolio with impressive market share** – RKL has established a strong foothold in the market particularly in the regular segment with its brands like 8 PM whisky, Old Admiral brandy, and Contessa rum, and became one of the leading brands in the Canteen Stores Department (CSD). The company has four millionaire brands in its portfolio (8 PM, Contessa Rum, Old Admiral Brandy, and Magic Moments Vodka). To increase market penetration for Jaisalmer Indian Craft Gin, it is now made available in three more metro cities-Hyderabad, Bangalore and Mumbai.

Changing consumption pattern and consumption preference represents significant growth opportunities for a market leader like Radico Khaitan.

Market share of vodka (in value terms) in the global spirits industry is about 35% compared to only 5% in India



| Radico Khaitan offers broad choices for consumer with focus on premium brand | |
|--|----------------------|
| Price Unit | Choice |
| Luxury > ₹4000 | Whisky & Gin |
| Semi Luxury ₹1000-1500 | Brandy |
| Super Premium ₹700-1000 | Brandy & Vodka |
| Semi-Premium/Premium ₹500-700 | Whisky, Rum & Vodka |
| Delux ₹400-500 | Whisky, Rum & Brandy |
| Regular ₹300-400 | Whisky, Rum & Brandy |
| Ready to drink ₹100-150 | Ready to drink |

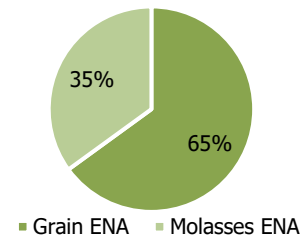
Source: Company, Way2Wealth Research

➤ **Market Share –**

1. Magic moments family of vodka leads the Indian vodka industry with over 60% market share.
2. 20% market share in the premium vodka category
3. 58% market share in the premium brandy category (Morpheus).
4. Continued to retain a market shares of more than 30%, being a largest player in CSD.

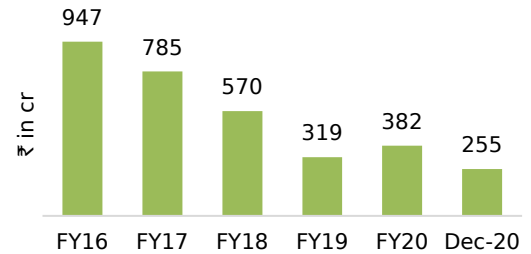
➤ **Raw material prices expected to remain stable –** ENA/grain and packaging materials are the two key components of the raw materials required for the company’s product portfolio. With an improved monsoon, better crop this sugar season, and a significant decline in the crude prices, the raw material pricing scenario is expected to be stable in the near term. Raw material price volatility has a very marginal impact on the products in the Prestige & Above category brands. Furthermore, an increasing proportion of Prestige & Above category brands coupled with price increases accorded by various state governments will mitigate the risks of raw materials price increases.

Raw Material Mix



Source: Company, Way2Wealth Research

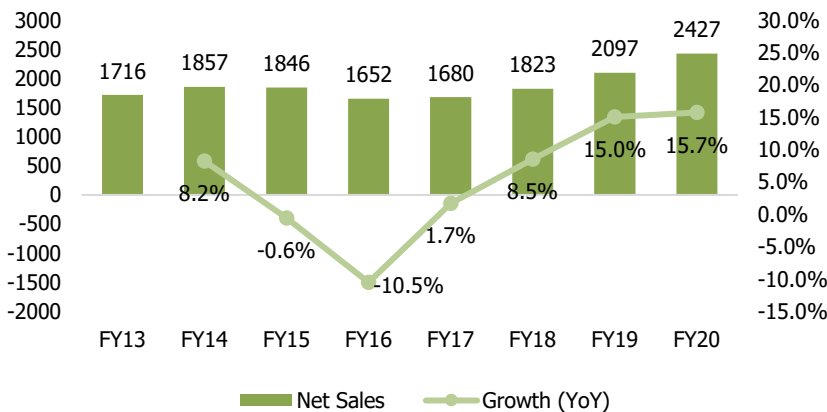
➤ **Zero long term debt in two years –** For the past couple of years, the company has been focusing on free cash flow generation and re-payment of long-term debt. On the working capital front, the company has seen its working capital days improve from 61days in FY16 to 36 days in FY20, with tailwinds from the privatization of UP distribution and retail shops from earlier Government-owned networks. These developments along with the strong earnings growth will enable the company to reduce its existing debt. As shown in the below-mentioned chart, as of Dec-20, the total debt was at '255 crore, a sharp reduction from '947 crore in FY16. Further, the management expects the current levels of net debt to effectively reduce to zero in about two years.



Net debt reduction of over ₹127 cr since Mar-20

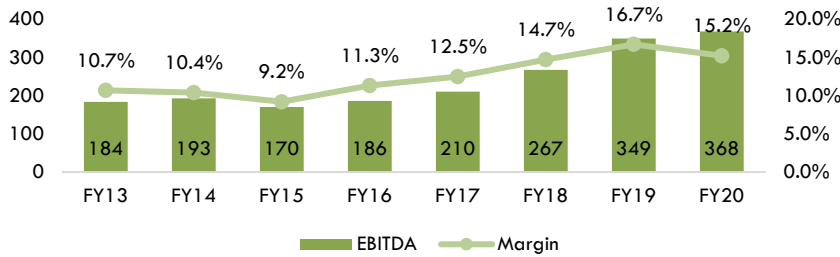
Source: Company, Way2Wealth Research

➤ **Focus on profitability growth driven by prestige & above category brands**



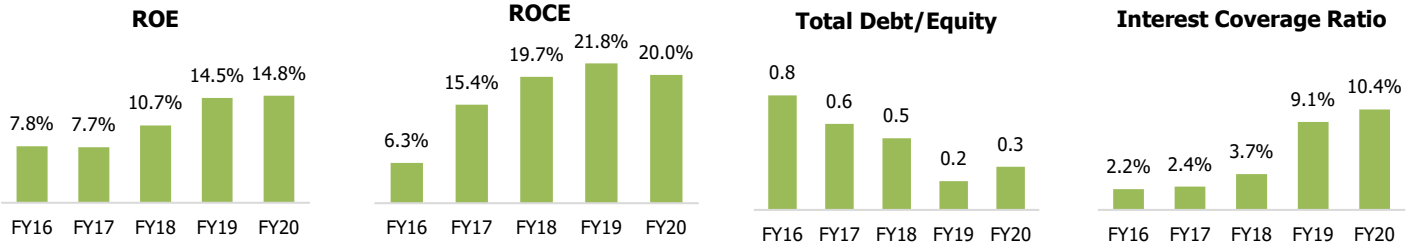
Source: Company, Way2Wealth Research

- **EBITDA margins expected to expand by 100-200bps** – RDCK reported a gross margin of ~86% and an EBITDA margin of 15.3% for FY20. We believe there is significant scope of margin expansion in the coming years, led by improving pricing environment in the IMFL industry, better product mix (led by 12% volume CAGR in premium brands over five years), benign input costs, and better-operating efficiencies. Management expects EBITDA margin should expand 100-200 bps in the upcoming fiscal.



Source: Company, Way2Wealth Research

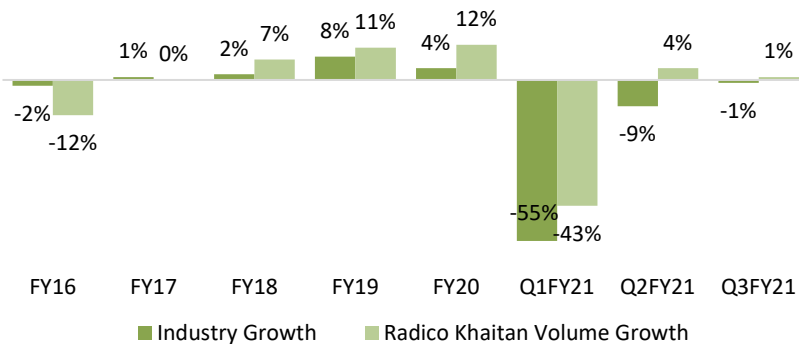
Sustained improvement in key financial indicators



Source: Company, Way2Wealth Research

Q3FY21 Performance

- During Q3FY2021, the company reported Prestige & Above category volume growth of 5.3% led by key brands such as 8 PM Premium Black whisky and 1965, Spirit of Victory rum.
- Revenue grew by 5.6% y-o-y and EBITDA by 21.3% during Q3FY2021. In the coming quarters, the company will continue to focus on new product development and increasing market share.



Source: Company, Way2Wealth Research

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- Raw material pricing scenario has remained broadly stable with no significant movement on Q-o-Q basis. However, compared to last year, raw material prices have been softer.
- Gross Margin expanded by 232 bps from 48.5% in Q3FY20 to 50.8% in Q3FY21 and 286bps from 48.2% to 51.0% during the nine months of FY21. Price realization improved due to a better product mix, strong exports, and price increases. During the quarter, the Kerala state has hiked the prices of all liquor except beer and wine (w.e.f. February 1, 2021) which is likely to have a 30bps impact on realization.
- Finance cost decreased by 3.5% Y-o-Y to ₹5.4cr. The cost of borrowing has declined from 7.9% to 5.3% in Dec-20 due to a lower interest environment and improved liquidity position.

Risk

- Inflation in raw material prices
- Lower than expected growth in premium category which would delay margin expansion
- Any change in rules and regulations by the respective state governments with regard to IMFL industry can impact the business.

Supportive Valuation

At its CMP of ₹555/-, the stock trades at ~32.6 its FY20 earnings of ₹17.

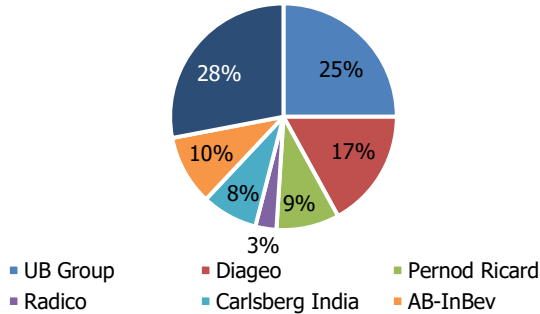
Given the expected margin improvement, sustained double-digit volume growth, and zero debt status in two years, we believe there is a case for a re-rating. Change in the UP excise policy to move from the monopolistic distribution to a free market benefited the company as Radico Khaitan enjoys a strong positioning in the state. **We advise investors to accumulate the stock on dips for the long term.**

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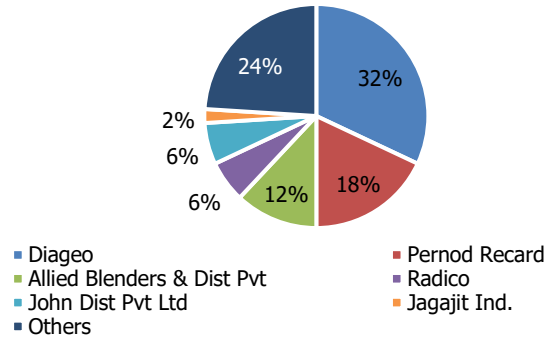
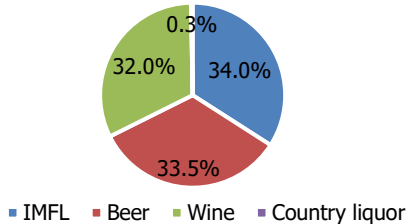
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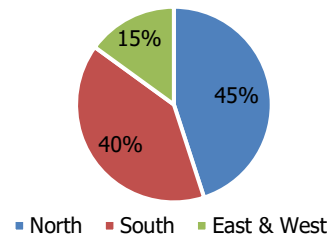
Industry Data

Indian Alcoholic Beverages Industry
- Volume market share

Volume Share-IMFL

Indian Alcoholic Beverages Industry by
Volumes

Region-wise split



Source: Company, Way2Wealth Research

Peer Comparison

| Particulars | Radico Khaitan | United Spirits | UBL |
|---------------------------|----------------|----------------|---------------|
| M Cap (₹ crs) | 7,493 | 41,051 | 33,447 |
| Debt(₹ crs) | 398 | 1323 | 169 |
| Sales CAGR (5 yr) | 10.3% | 2.5% | 6.1% |
| EBITDA CAGR (5 yr) | 16.9% | 25.4% | 7.1% |
| PAT CAGR (5 yr) | 27.1% | - | 9.9% |
| Volume CAGR (3 yr) | 9.9% | -4.0% | 5.5% |
| Sales CAGR (3 yr) | 13.0% | 2.1% | 11.2% |
| EBITDA CAGR (3 yr) | 20.7% | 15.8% | 10.0% |
| PAT CAGR (3 yr) | 41.5% | 45.5% | 23.0% |
| ROE Avg (3 yr) | 15.0% | 23.0% | 15.9% |
| EPS (FY20) | 16.8 | 9.3 | 15.7 |
| CMP (₹) | 555 | 555 | 1217 |
| PE | 33.0 | 59.7 | 77.5 |

Source: Company, Way2Wealth Research

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Financial Statement

| (₹ crs) | | | |
|--|--|----------------|--------------|
| Particulars | FY20 | FY19 | YOY [%] |
| Sale of Goods | 9,417.9 | 8,058.0 | 16.9% |
| Excise Duty | 6,990.9 | 5,961.1 | 17.3% |
| Net Sales | 2,427.0 | 2,096.9 | 15.7% |
| Other Income | 9.2 | 13.3 | -30.9% |
| Total Income | 2,436.2 | 2,110.2 | (0.2) |
| Raw Material Consumed | 1,271.0 | 1,045.0 | 21.6% |
| Purchase of stock in trade | 3.6 | 11.2 | -67.9% |
| Stock Adjustment | (18.8) | (41.7) | -54.8% |
| | <i>RMC as a %age of sales</i> | <i>51.7%</i> | <i>48.4%</i> |
| Employee Expenses | 186.1 | 171.4 | 8.6% |
| | <i>EPC as a %age of sales</i> | <i>7.7%</i> | <i>8.2%</i> |
| Selling and Distribution Expenses | 311.24 | 297.23 | 4.7% |
| | <i>Selling and Distribution Expenses as a % of sales</i> | <i>12.8%</i> | <i>14.2%</i> |
| Other Expenses | 302.2 | 263.7 | 14.6% |
| | <i>Other Expenses as a %age of sales</i> | <i>12.5%</i> | <i>12.6%</i> |
| Total Expenditure | 2,055.3 | 1,746.8 | 17.7% |
| EBIDTA | 371.7 | 350.2 | 6.2% |
| | <i>EBITDA Margins %</i> | <i>15.3%</i> | <i>16.7%</i> |
| Interest | 31.6 | 35.5 | -10.9% |
| Interest | | | - |
| Loss/Gain in Forex | | | - |
| PBDT | 349.3 | 328.0 | 6.5% |
| Depreciation | 52.5 | 42.4 | 23.8% |
| Minority Interest Before NP | | | - |
| PBT before exceptional items | 296.8 | 285.6 | 3.9% |
| Exceptional items | 24.2 | | - |
| PBT | 272.6 | 285.6 | -4.5% |
| Tax | 71.0 | 85.7 | -17.2% |
| Tax expenses of earlier year | | | - |
| Deferred Tax | (25.8) | 11.9 | -316.6% |
| | <i>Tax Rate</i> | <i>15.2%</i> | <i>34.2%</i> |
| Reported Profit After Tax | 227.5 | 187.9 | 21.0% |
| Other Comprehensive Income | 0.0 | 0.1 | -100.0% |
| Total Comprehensive Income for the period | 227.5 | 188.1 | (0.8) |
| PATM % | 9.4% | 9.0% | |

Source: Company Filing

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Disclosure of Interest Statement Radico Khaitan Ltd. as on February 22nd, 2021

| | |
|--|--------------------|
| Name of the Security | Radico Khaitan Ltd |
| 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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| Investment Banking relationship with company covered | NIL |

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