

Q2FY23: Sales growth led by Prestige & Above Category
Important Statistics

- Total IMFL volume of 7.18 mn cases (+10.9% YoY).
- Prestige & above brands volume of 2.33 mn cases (22% YoY).
- Prestige & Above brands contribution to the total IMFL volumes of 37.9% (vs. 30.2%)
- Net sales increased by 8.6% to ₹761Cr
- Due to inflationary pressure, gross margin contracted from 45.3% to 41.6% YoY.
- EBITDA declined 19% YoY to ₹89.6Cr and margin contracted to 11.8% (400 bps) YoY.

M.CAP (₹ bn)	~₹135
52 Week H/L (₹)	₹1,294/723
NSE Code	RADICO
BSE Code	532497

Key takeaways from Q2FY23 result
Volumes Growth:

- Radico Khaitan's net sales grew 8.6% to ₹761Cr. Total IMFL volume growth was 10.9% y-o-y led by Prestige & Above category volume growth of 22%. Prestige & Above net revenue growth was 25% compared to Q2FY22. Prestige & Above brands contribution to the total IMFL sales value of 59.2% (vs. 51.4%)

Shareholding pattern (%)	Sep'22
Promoter	40.27
FII	18.86
DII	22.85
Public & Others	18.02

Gross Margin:

- Gross Margin during the quarter was 41.6% vs 43.6% in Q1FY23 and 45.3% in Q2FY22
- On Y-o-Y basis, continued commodity inflation resulted in gross margins compression, particularly in the non-IMFL business. Given a favorable product mix change, impact of cost push on the gross margin of the IMFL business was mitigated to a large extent.

Price Increase:

- The weighted average price hike has been 3% so far with the state of West Bengal (3% of revenue) permitting a 12% price hike. This coupled with the backward integration benefit from Rampur dual feed plant is expected to support profitability improvement during the second half of FY23.
- Management expecting further price hikes in non-IMFL in Q3 or in FY24, which should improve margins in non-IMFL

Operating efficiency:

- EBITDA declined 19% YoY at ₹90Cr and margin contracted to 11.8% (410 bps) YoY. PAT declined by 2.6% to ₹58.3Cr. PAT declined 25% YoY to ₹52Cr.
- Employee benefit expenses increased by 6% y-o-y to ₹40Cr and QoQ basis it increased 10%.
- Selling & distribution expenses has increased by 8% YoY to ₹73.2Cr while QoQ basis it declined by 22%. Finance cost increased by 32% y-o-y to ₹4Cr.
- Other expenses increased by 12% 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 6-8% of IMFL revenues to be able to drive the sales momentum.

➤ **New launches:**

- In the month of Sep'22, the company launched the Rampur Jugalbandi variant in a few overseas market and will be rolling it out in the US soon.
- Building upon the market leadership of Magic Moments, the company have launched a low alcohol ready-to-drink, Magic Moments Vodka Cocktail. It is the only vodka based RTD available in the Indian markets and also launched 1965 Spirit of Victory Lemon Dash Rum which will help the company tap into a new spirit category of white rum.
- Expecting price increases in a few large states which coupled with ongoing premiumization, portfolio rationalization and value engineering will drive profitability growth.
- Rampur volumes will triple in FY24, helped by addition of malt maturation supplies. Capacity for Jaisalmer has already doubled and will be increased as demand increases. Jaisalmer gin has been priced at the top end of the gin range.

➤ **Net Debt:**

- Net debt as of Sep'22 stands at ₹288Cr vs ₹116Cr in Mar'22. There was an increase in Net Debt of ₹172.2Cr after Capex on new projects of ₹249Cr since Mar'22.

As of Jun'22	₹ cr
Total Debt	399.0
Cash & Cash Equivalent	(110.8)
Net Debt	288.2

➤ **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.
 - The gross margin to benefit from the Rampur dual feed (140 klpd) can expand the margin about 200bps. The Rampur unit will begin by Dec'22
- **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

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View – Accumulate on dips

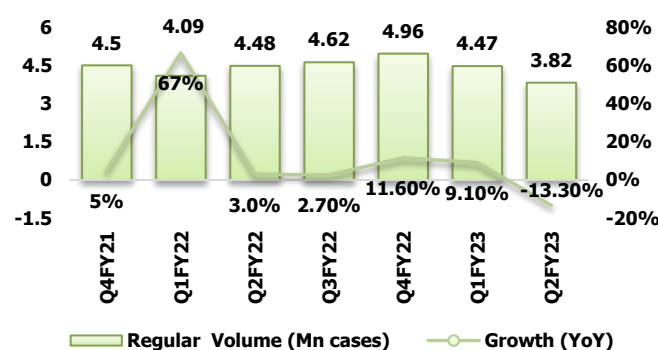
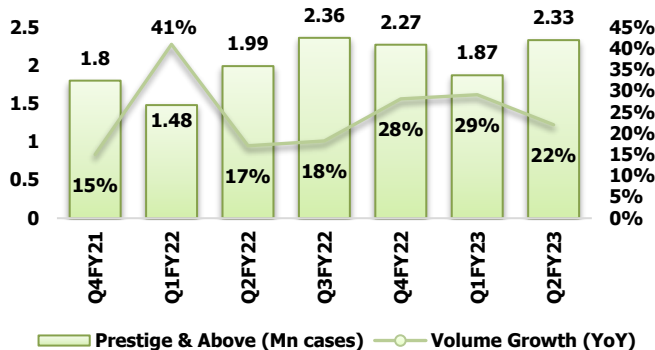
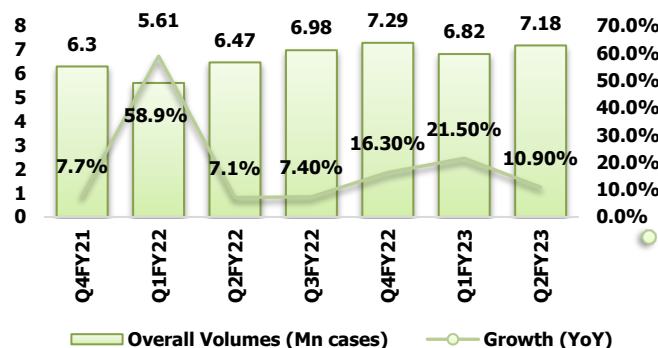
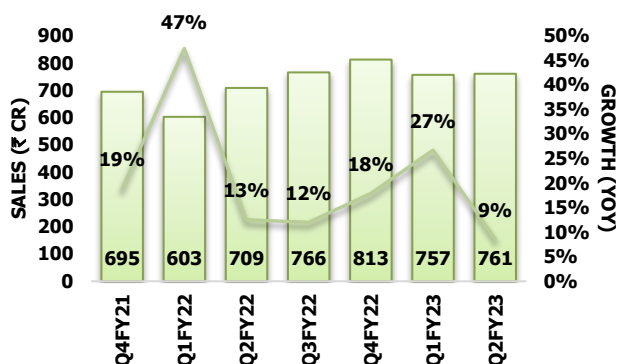
the future growth potential of Rampur Indian Single Malt

- 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%

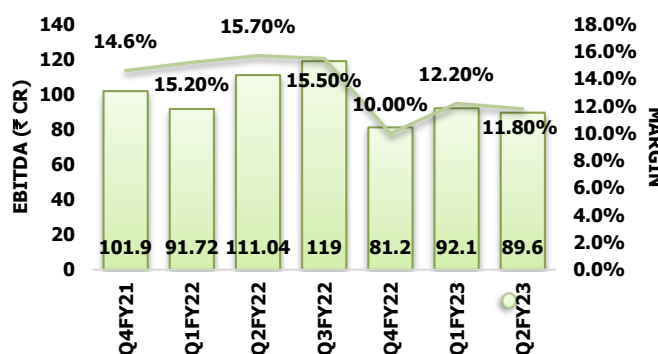
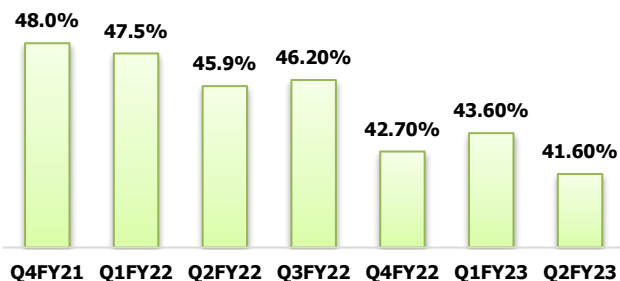
➤ Guidance:

- 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.

Story in charts



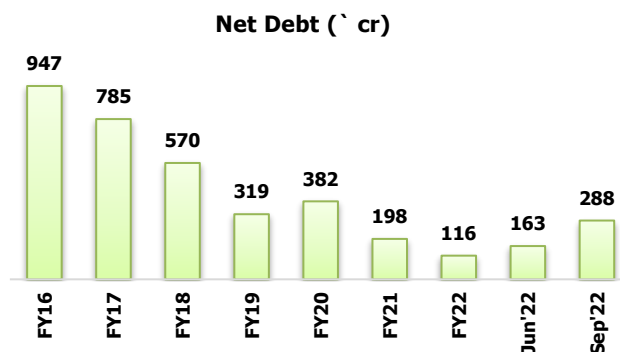
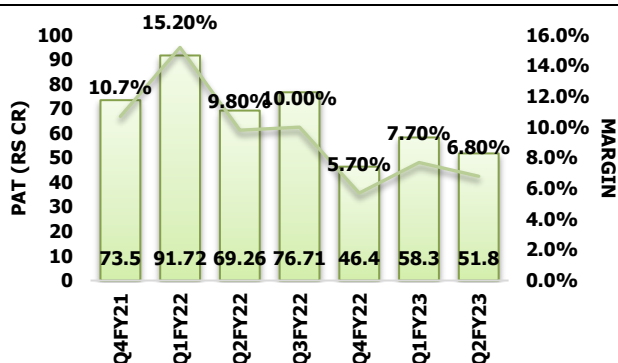
Gross Margin



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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 11% in Q2FY23 led by robust 22% volume growth in its P&A segment. The management is expecting price increase in the non-IMFL range, also Rampur dual-feed unit turning operational in Dec'22 (additional 200bps to the gross margin) and tripling of brand Rampur volumes in FY24 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 ₹1019/-, the stock trades at ~52.5. its FY22 earnings of ₹19.4. The Radico Khaitan Ltd stock has corrected by around ~20% from its 52-week high and investors can use this opportunity to accumulate this stock on corrections.

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Quarterly Performance

(₹ Cr)

	Q2FY23	Q2FY22	VAR[%]	Q1FY23	VAR[%]	H1FY23	H1FY22	VAR[%]
Gross Sales	3018.56	3069.64	-1.7%	3183.8	-5.2%	6202.36	5948.8	4.3%
Excise duty on Sales	2257.17	2368.36	%	2426.4		4683.57	4649.88	%
Net Sales (Net of Excise Duty)	761.39	701.28	8.6%	757.4	0.5%	1518.79	1298.92	16.9%
Other Income	0.94	1.75	-46.3%	4.37	-78.5%	5.31	3.69	43.9%
TOTAL INCOME	762.3	703.0	8.4%	761.8	0.1%	1524.1	1302.6	17.0%
Total Raw Material Cost	445.0	383.8	16.0%	427.5	4.1%	872.5	699.9	24.7%
Cost of Raw Material & Components Consumed	472.53	375.68	25.8%	462.1	2.3%	934.63	709.62	31.7%
(Increase)/ Decrease in Inventories	-28.02	8.07	-447.2%	-34.24	-18.2%	-62.26	-10.52	491.8%
Purchase of Traded Goods	0.52	0.01	5100.0%	-0.35	-248.6%	0.17	0.81	-79.0%
<i>Total Raw Material Cost % to Sales</i>	<i>58.4%</i>	<i>54.7%</i>		<i>56.4%</i>		<i>57.4%</i>	<i>53.9%</i>	
Employee Cost	40.18	37.89	6.0%	36.43	10.3%	76.61	68.49	11.9%
<i>Employee Cost % to Sales</i>	<i>5.3%</i>	<i>5.4%</i>		<i>4.8%</i>		<i>5.0%</i>	<i>5.3%</i>	
Selling & Distribution Expenses	73.16	67.55	8.3%	94.04	-22.2%	167.2	138.51	20.7%
<i>Selling & Distribution Expenses % of Sales</i>	<i>9.6%</i>	<i>9.6%</i>		<i>12.4%</i>		<i>11.0%</i>	<i>10.7%</i>	
Other Expenses	112.94	100.6	12.3%	106.93	5.6%	219.87	188.41	16.7%
<i>Other Expenses % of Sales</i>	<i>14.8%</i>	<i>14.3%</i>		<i>14.1%</i>		<i>14.5%</i>	<i>14.5%</i>	
TOTAL EXPENDITURE	671.3	589.8	13.8%	664.9	1.0%	1336.2	1095.3	22.0%
EBIDTA	90.1	111.5	-19.2%	92.5	-2.6%	182.6	203.6	-10.3%
EBIDTA Margin %	11.8%	15.9%		12.2%		12.0%	15.7%	
Finance Costs	4.05	3.06	32.4%	2.97	36.4%	7.02	7.69	-8.7%
PBDT	87.0	110.2	-21.1%	93.9	-7.4%	180.9	199.6	-9.4%
Depreciation, Ammortization & Impairment	17.19	16.17	6.3%	16.73	2.7%	33.92	31.54	7.5%
Profit Before Tax	69.8	94.0	-25.8%	77.2	-9.6%	146.9	168.1	-12.6%
Tax	17.96	24.78		18.9	#REF!	36.86	42.57	
<i>Tax Rate %</i>	<i>25.7%</i>	<i>26.4%</i>		<i>24.5%</i>		<i>25.1%</i>	<i>25.3%</i>	
Reported Profit before share in profit of joint venture	51.8	69.2	-25.1%	58.3	-11.1%	110.1	125.5	-12.3%
<i>PAT Margin %</i>	<i>6.8%</i>	<i>9.9%</i>		<i>7.7%</i>		<i>7.2%</i>	<i>9.7%</i>	
Share of net profit/(loss) in Associates and Joint Ventures using equity method	2.7	3.9		3.7		6.39	8.5	
Net profit for the period	54.5	73.1		62.0		116.5	134.0	
Other Comprehensive Income (net of tax)	-0.4	-0.3						
Total Comprehensive Income	54.1	72.8	-25.6%	62.0	-12.7%	116.5	134.0	-13.1%
Basic:								
EPS	4.05	5.45	-25.6%	4.64	-12.7%	8.72	10.03	-13.1%
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 November 22, 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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