

30th May 2023

CMP – ₹1159/-

View – **Accumulate on corrections**
Q4FY23: Muted sales growth with strong Performance by P&A category
Important Statistics

- Total IMFL volume of 7.24 mn cases, contracted 0.7% YoY.
- Prestige & above brands volume of 2.55 mn cases (17.4% YoY).
- Prestige & above brands contribution to the total IMFL volumes of 40.2% (vs. 30.5%)
- Net sales increased by 2.4% to ₹834Cr
- Due to inflationary pressure, gross margin contracted from 42.7% to 40.6% YoY.
- EBITDA declined 1.3% YoY to ₹80.1Cr and margin contracted to 9.6% (40 bps) YoY.

M.CAP (₹ Cr)	~₹15,320
52 Week H/L (₹)	₹1,229/765
NSE Code	RADICO
BSE Code	532497

Shareholding pattern (%)	Mar'23
Promoter	40.27
FII	18.94
DII	23.51
Public & Others	17.59

Key takeaways from Q4FY23 result
Relative Performance
Volumes Growth:

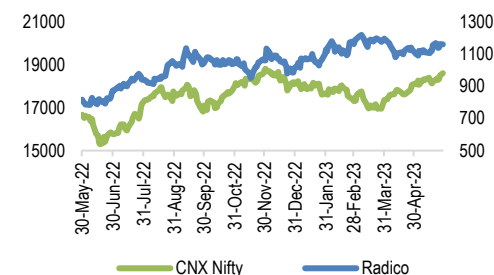
- Radico Khaitan's net sales grew 2.4% to ₹832Cr. Total IMFL volume was marginally declined 70 bps whereas Prestige & Above category volume grew 17.4%. Prestige & above net revenue growth was 18.2% compared to Q4FY22. Prestige & above brands contribution to the total IMFL sales value of 65.8% (vs. 55.3%)

Gross Margin:

- Gross Margin during the quarter was 40.6% vs 41.8% in Q3FY23 and 42.7% in Q4FY22. 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 normalize.
- 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.
- Recent price hikes in Uttar Pradesh (UP) for the non-IMFL business (effective 1st April-23) should alleviate cost pressures. Further, the IMFL business has also seen price revisions in UP, Rajasthan, Telangana, and Karnataka. Therefore, operating margins at a consolidated level are expected to improve gradually to ~15%, on account of recent price hikes, portfolio rationalisation, and backward integration.

Operating efficiency:

- EBITDA declined 1.3% YoY at ₹80.1Cr and margin contracted to 9.6% (40 bps) YoY. PAT declined by 19.6% to ₹37.3Cr.
- Employee benefit expenses increased by 19% y-o-y to ₹44.5Cr and QoQ basis it declined 2.2%. Employee Benefit expenses adjusted for ₹2.25Cr of arrears payable on account of wage revision applicable from 2016



Source: Company, Way2Wealth

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- Selling & distribution expenses has declined by 15.5% YoY to ₹83.2Cr while QoQ basis it increased by 5.9%. Finance cost increased to ₹9Cr vs ₹2.3Cr in Q4FY22.

- Other expenses declined by 2.3% 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 FY23, A&SP as % of IMFL sales was 5.% vs. 5.4% in FY22. 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:

- Within the premium segment, Morpheus Premium Brandy and 1965 Spirit of Victory Premium Rum entered the millionaire club over the course of FY23. With these additions, Radico now has seven brands in the millionaire club. In addition, recent launches — Rampur Single Malt, Jaisalmer Gin, and After Dark Whisky — are gaining decent traction in domestic as well as international markets. Moreover, the 8PM Premium Black Whisky has been renovated with more contemporary packaging to enhance the brand equity

➤ Net Debt:

- Net debt as of Mar'23 stands at ₹611Cr vs ₹116Cr in Mar'22. There was an increase in Net Debt of ₹495Cr after Capex on new projects of ₹608.9Cr since Mar'22.
- The project execution for grain-based distillery in Sitapur is underway and the commercial operations are expected to commence in August/September. Considering the balance investment amount required for the completion of Sitapur distillery, net debt is likely to touch ₹800Cr over the next two quarters.

As of Mar'23	₹ Cr
Total Debt	697
Cash & Cash Equivalent	(86)
Net Debt	611

➤ Guidance:

- The company expects margins to get back to historic level of 15-16%. Backward integration benefit from Rampur dual feed plant is expected to support profitability coupled with premiumisation.

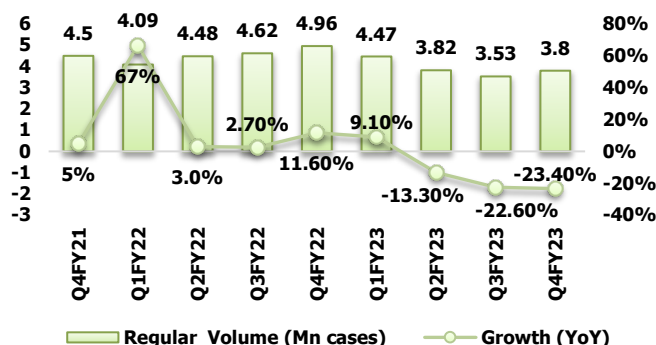
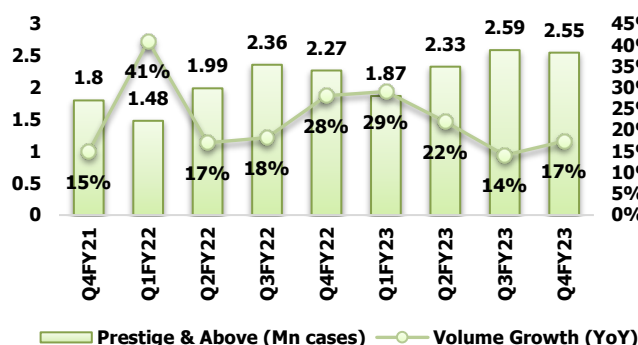
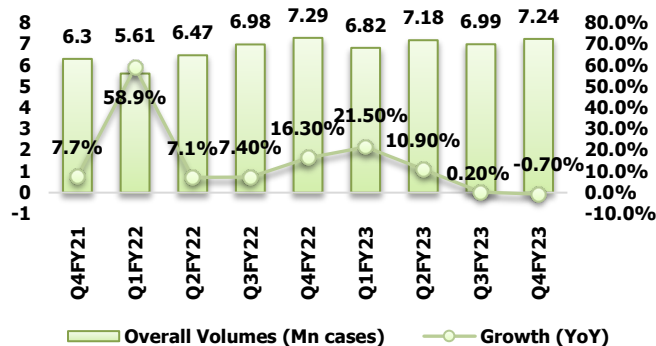
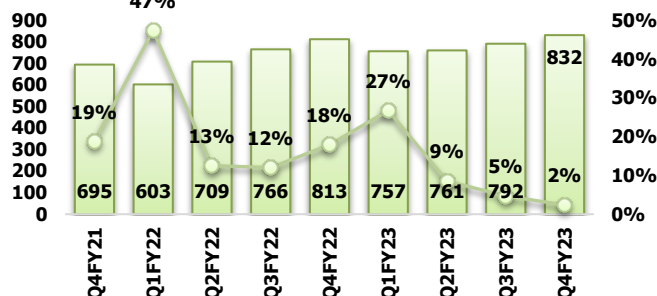
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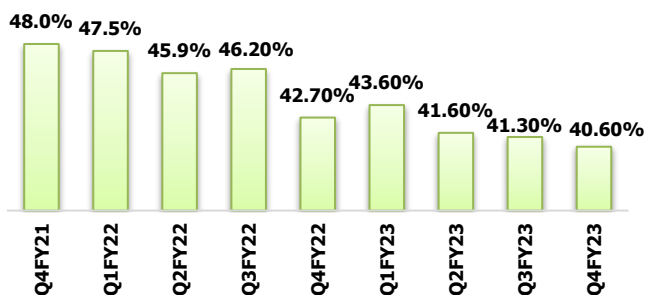
View – **Accumulate on corrections**

Story in charts

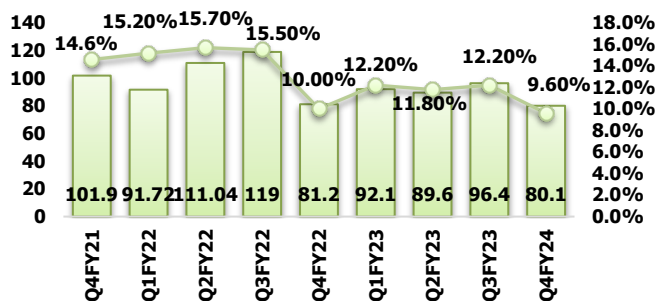
Sales (₹ Cr) & Growth (YoY)



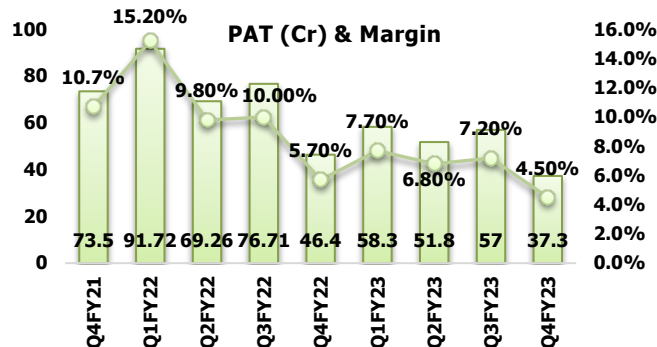
Gross Margin



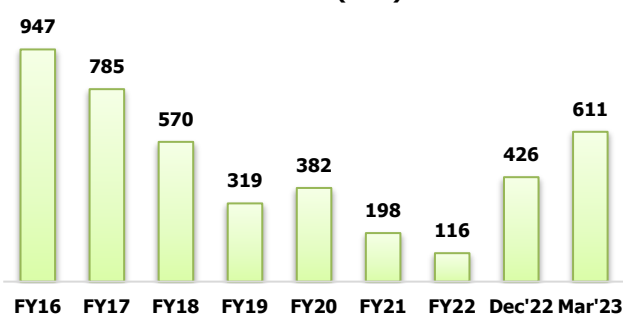
EBITDA (₹ Cr) & Margin



PAT (Cr) & Margin



Net Debt (` Cr)



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 Prestige and above category of 17.4% in Q4FY23. Commissioning of the Rampur dual-feed unit along with premiumisation aids in a better sales mix. The project execution for grain-based distillery in Sitapur is underway and the commercial operations are expected to commence in August/September. This should drive the EBITDA margin to its historic level of 15-16% going forward.

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

At its CMP of ₹1159/-, the stock trades at ~75.7 to its FY23 earnings of ₹15.3. Considering the track record of execution, the stock is currently trading at an expensive valuation. **We, therefore, recommend long term investors to accumulate this stock on corrections.**

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Quarterly Performance

(₹ Cr)

	Q4FY23	Q4FY22	VAR [%]	Q3FY23	VAR[%]	FY23	FY22	VAR[%]
Gross Sales	3375.36	3224.45	4.7%	3166.19	6.6%	12743.91	12470.5	2.2%
Excise duty on Sales	2543.52	2411.93	%	2374.03		9601.12	9602.48	%
Net Sales (Net of Excise Duty)	831.84	812.52	2.4%	792.16	5.0%	3142.79	2868.02	9.6%
Total Operating Income	831.8	812.5	2.4%	792.2	5.0%	3142.8	2868.0	9.6%
Other Income	1.38	2.13	-35.2%	2.72	-49.3%	9.41	7.43	26.6%
TOTAL INCOME	833.2	814.7	2.3%	794.9	4.8%	3152.2	2875.5	9.6%
Total Raw Material Cost	494.4	465.5	6.2%	464.8	6.4%	1831.8	1577.4	16.1%
Cost of Raw Material & Components Consumed	517.53	455.22	13.7%	469.27	10.3%	1921.43	1579.24	21.7%
(Increase)/ Decrease in Inventories	3.78	1.71	121.1%	-7.12	-153.1%	-65.6	-10.8	507.4%
Purchase of Traded Goods	-26.89	8.54	-414.9%	2.65	-1114.7%	-24.07	8.94	-369.2%
Total Raw Material Cost % to Sales	59.4%	57.3%		58.7%		58.3%	55.0%	
Employee Cost	46.77	37.42	25.0%	45.54	2.7%	168.92	141.25	19.6%
Employee Cost % to Sales	5.6%	4.6%		5.7%		5.4%	4.9%	
Selling & Distribution Expenses	83.24	98.5	-15.5%	78.58	5.9%	329.02	317.62	3.6%
Selling & Distribution Expenses % of Sales	10.0%	12.1%		9.9%		10.5%	11.1%	
Other Expenses	128.49	131.5	-2.3%	106.38	20.8%	454.74	429.51	5.9%
Other Expenses % of Sales	15.4%	16.2%		13.4%		14.5%	15.0%	
TOTAL EXPENDITURE	752.9	732.9	2.7%	695.3	8.3%	2784.4	2465.8	12.9%
EBIDTA	78.9	79.6	-0.9%	96.9	-18.5%	358.4	402.3	-10.9%
EBIDTA Margin %	9.5%	9.8%		12.2%		11.4%	14.0%	
Finance Costs	9.01	2.29	293.4%	6.08	48.2%	22.11	13.1	68.8%
PBDT	71.3	79.5	-10.3%	93.5	-23.8%	345.7	396.6	-12.8%
Depreciation, Ammortization & Impairment	19.91	16.39	21.5%	17.06	16.7%	70.89	64.87	9.3%
PBT before Exceptional Items	51.4	63.1	-18.5%	76.4	-32.8%	274.8	331.7	-17.2%
PBT after Exceptional Items	51.4	63.1	-18.5%	76.4	-32.8%	274.8	331.7	-17.2%
Tax	14.11	16.58		19.39	-	70.36	83.07	
Tax Rate %	27.5%	26.3%		25.4%		25.6%	25.0%	
Reported Profit before share in profit of joint venture	37.3	46.5	-19.8%	57.0	-34.7%	204.4	248.7	-17.8%
PAT Margin %	4.5%	5.7%		7.2%		6.5%	8.7%	
Share of net profit/(loss) in Associates and Joint Ventures using equity method	5.4	3.7		4.2		15.98	14.68	
Net profit for the period	42.7	50.2		61.2		220.4	263.3	
Other Comprehensive Income (net of tax)	-0.9	1.1		-0.4		-1.247	0.922	
Total Comprehensive Income	41.8	51.3	-18.6%	60.9	-31.4%	219.1	264.3	-17.1%

Basic:

EPS	3.13	3.84	-18.6%	4.56	-31.4%	16.40	19.78	-17.1%
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, Way2wealth Research

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Disclosure of Interest Statement Radico Khaitan Ltd. (Radico) as on 30 May 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	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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