

## Radico Khaitan

### Performance Highlights

#### Quarterly Data

(₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
Revenue	430	417	3.1	378	14.0
EBITDA	56.3	46	21.9	39	45.1
Margin (%)	13.1	11.1	201bp	10.3	281bp
Adj. PAT	22	17	25.2	15	45.7

Source: Company, Angel Research

For 1QFY2017, Radico Khaitan's results have come in line with our estimates. The company's top-line grew by ~3% yoy to ₹430cr on back of higher sales of premium products while the bottom-line grew by ~25% yoy to ₹22cr on the back of a strong operating performance and lower taxes.

**Top-line grew ~3% yoy:** Volume growth during the quarter was of 3.6% yoy which resulted in the top-line growing by 3% yoy to ₹430cr (our estimate was of ₹427cr). The company has consciously shifted its focus in favor of prestige & above products which command better margins, over higher volume mass market products. Prestige & above brands' volume grew ~11% yoy while their contribution to total IMFL volumes increased from 25.2% in 1QFY2016 to 26.9% in 1QFY2017.

**Despite lower sales, PAT grew by ~25% yoy:** On the operating front, the company's margin improved by 201bp yoy to 13.1%, primarily on account of a favorable shift in the product mix from regular to premium products. The company reported a ~25% yoy rise in its net profit to ₹21.5cr for the quarter on the back of a strong operating performance and lower taxes.

#### Outlook and Valuation:

Going forward, we believe that the company has the potential to perform better on the bottom-line front on the back of (a) volume growth (b) higher sales of premium products (c) anticipation of better price hikes and (d) gradual reduction in debt which should lead to significant savings in interest costs. **Hence, we recommend a Buy rating on the stock with a target price of ₹125.**

#### Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	1,488	1,543	1,659	1,802
% chg	2.5	3.7	7.5	8.6
Net profit	68	77	84	98
% chg	(5.1)	13.7	9.6	16.4
EBITDA margin (%)	11.4	12.6	13.0	13.2
EPS (₹)	5.1	5.8	6.3	7.4
P/E (x)	19.9	17.5	15.9	13.7
P/BV (x)	1.6	1.5	1.4	1.3
RoE (%)	8.1	8.5	8.6	9.3
RoCE (%)	7.8	8.8	9.6	10.4
EV/Sales (x)	1.4	1.4	1.2	1.1
EV/EBITDA (x)	12.2	10.7	9.5	8.6

Source: Company, Angel Research, Note: CMP as of August 17, 2016

## BUY

CMP	₹101
Target Price	₹125

Investment Period	12 months
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#### Stock Info

Sector	Breweries & Distilleries
Market Cap (₹ cr)	1,349
Net Debt (₹ cr)	742
Beta	0.8
52 Week High / Low	131 / 81
Avg. Daily Volume	67,796
Face Value (₹)	2
BSE Sensex	28,005
Nifty	8,624
Reuters Code	RADC.BO
Bloomberg Code	RDCK@IN

#### Shareholding Pattern (%)

Promoters	40.5
MF / Banks / Indian Fls	13.3
FII / NRIs / OCBs	21.1
Indian Public / Others	25.1

Abs. (%)	3m	1yr	3yr
Sensex	9.4	0.7	50.9
RKL	5.8	15.9	9.5

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Quarterly performance**

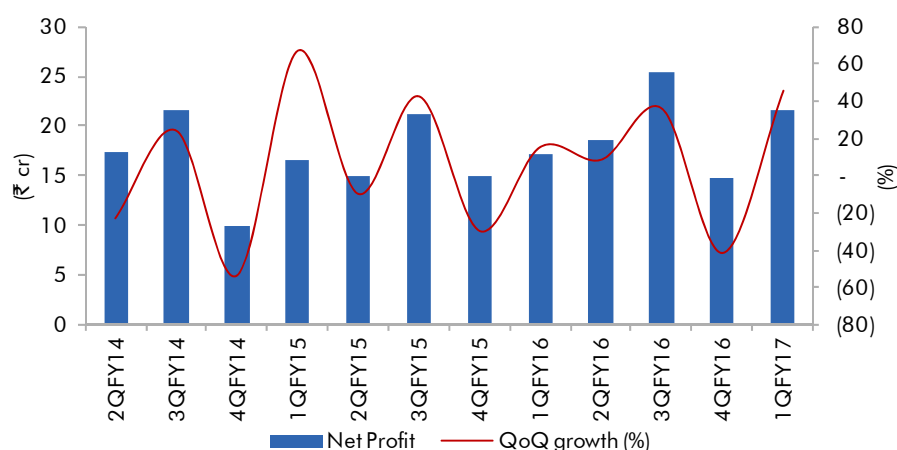
Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq	FY2016	FY2015	% chg
<b>Net Sales</b>	<b>430</b>	<b>417</b>	<b>3.1</b>	<b>378</b>	<b>14.0</b>	<b>1,543</b>	<b>1,488</b>	<b>3.7</b>
Consumption of RM	229	226	1.1	183	25.0	721	720	0.1
(% of Sales)	53.1	54.2		48.5		46.7	48.3	
Staff Costs	37	31	20.4	34	9.9	131	120	9.6
(% of Sales)	8.6	7.4		8.9		8.5	8.0	
Selling & Administrative Exps.	42	41	2.2	65	(35.1)	273	284	(3.8)
(% of Sales)	9.8	9.9		17.2		17.7	19.1	
Operating Expense	66	73	(9.3)	57	15.6	224	195	14.7
(% of Sales)	15.4	17.5		15.1		14.5	13.1	
<b>Total Expenditure</b>	<b>374</b>	<b>371</b>	<b>0.8</b>	<b>339</b>	<b>10.4</b>	<b>1,348</b>	<b>1,318</b>	<b>2.3</b>
<b>Operating Profit</b>	<b>56</b>	<b>46</b>	<b>21.9</b>	<b>39</b>	<b>45.1</b>	<b>195</b>	<b>170</b>	<b>14.2</b>
OPM (%)	13.1	11.1		10.3		12.6	11.4	
Interest	21	21	0.5	23	(7.0)	85	90	(5.8)
Depreciation	10	11	(2.0)	10	1.5	40	38	5.3
Other Income	3.85	9.77	(60.6)	14.77	(73.9)	38	45	(15.2)
<b>PBT</b>	<b>28</b>	<b>24</b>	<b>17.9</b>	<b>20</b>	<b>39.6</b>	<b>108</b>	<b>87</b>	<b>23.6</b>
(% of Sales)	6.6	5.8		5.4		7.0	5.9	
Provision for Taxation	7	7	(0.3)	6	23.4	31	19	58.1
(% of PBT)	24.0	28.4		27.2		28.6	22.4	
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>22</b>	<b>17</b>	<b>25.2</b>	<b>15</b>	<b>45.7</b>	<b>77</b>	<b>68</b>	<b>13.7</b>
PATM	5.0	4.1		3.9		5.0	4.5	

Source: Company, Angel Research

### Top-line grew ~3% yoy

Volumes during the quarter grew by 3.6% yoy, which resulted in the top-line growing by 3% yoy to ₹430cr (our estimate was of ₹427cr). The company has consciously shifted its focus in favor of prestige & above products which command better margins, over higher volume mass market products. Prestige & above brands' volume grew ~11% yoy while their contribution to total IMFL volumes increased from 25.2% in 1QFY2016 to 26.9% in 1QFY2017.

#### Exhibit 2: Top-line growth trend

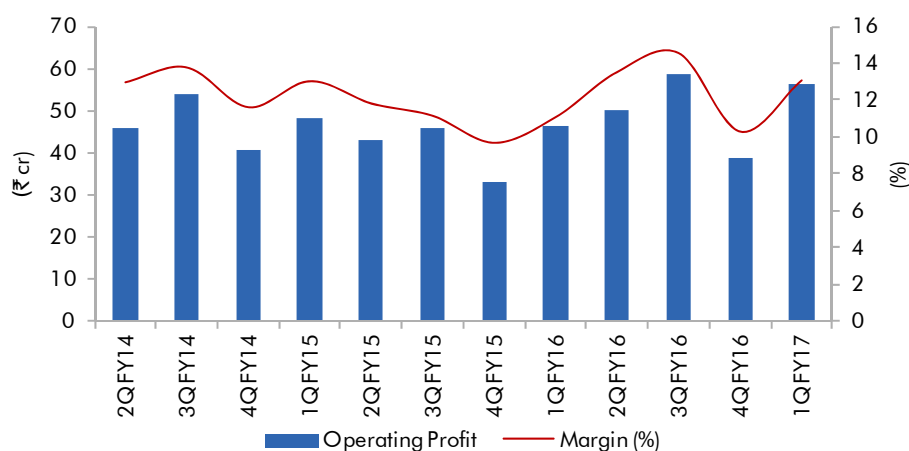


Source: Company, Angel Research

### Strong operating performance

On the operating front, the company's margin improved by 201bp yoy to 13.1%, primarily on account of a favorable shift in the product mix from regular to premium products which command higher margins.

#### Exhibit 3: Operating profit and margin trend

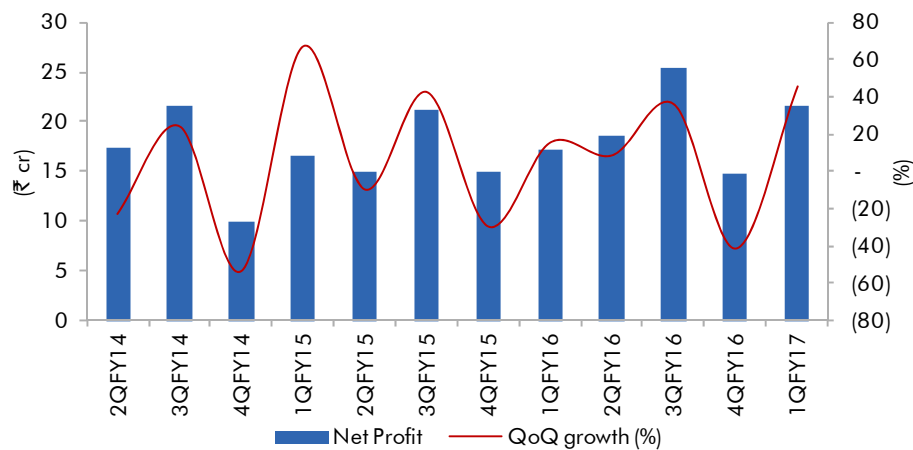


Source: Company, Angel Research

**PAT grew by ~25% yoy**

The company reported a ~25% yoy rise in its net profit for the quarter to ₹21.5cr on the back of a strong operating performance and lower taxes.

**Exhibit 4: Net Profit and growth trend**



Source: Company, Angel Research

## **Investment rationale**

### **Pricing environment expected to be favorable for IMFL industry**

Our interaction with liquor companies suggests that prices have now bottomed out. We expect the industry's pricing environment to likely get better going ahead mainly because there has not been any significant price hike in products in recent times due to delay in approval by various state governments. Hence, the industry is now expecting a significant price hike in the coming financial year. Also, the industry leader United Spirits has been facing pressure at the operating level and the company has a huge debt on its balance sheet. Hence we believe that the company's new Management would shift focus on profitability over volume growth, which in turn, would lead to increased scope for other liquor companies to hike prices.

### **Higher proportion of premium products in volume mix to drive profitability**

In the IMFL segment, more than 20% of the company's volumes come from prestige and above products, which is a high margin business, and the balance volumes come from regular and others brands. Since the last eight years, the company's prestige and above brands' volume has reported a CAGR of ~23% and their share in the product mix has increased from 7.9% in FY2009 to 24% in FY2016. We expect volume contribution of prestige and above products in the IMFL segment to increase further on back of higher ad spend. The company has roped in celebrity Hrithik Roshan as its brand ambassador. Also, the company's presence in the prestige Vodka segment is under penetrated which leaves scope for growth. Thus, this would improve the overall margin for the company and result in higher profitability.

### **Wide distribution network with strong brands**

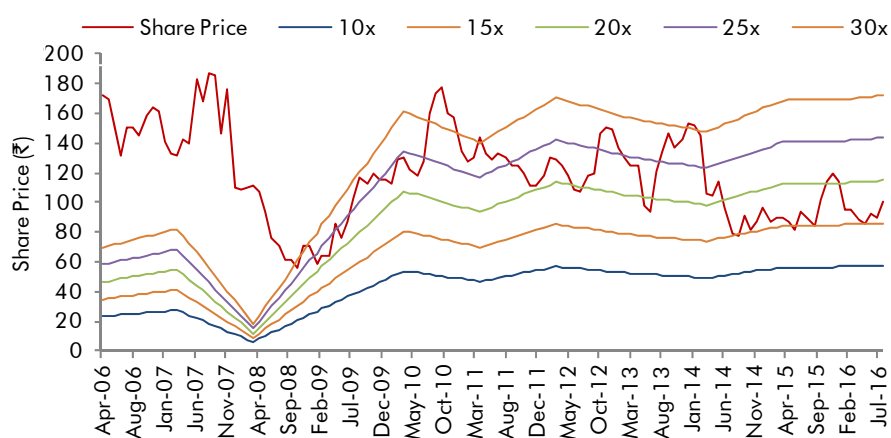
RKL has a strong sales and distribution network with a presence in retail and off-trade outlets in the relevant segments in different parts of India. Currently, the company is selling its products through over 45,000 retail outlets and over 5,000 on-premise outlets. Apart from wholesalers, a total of around 300 employees divided into four zones, each headed by regional profit centre head, ensure an adequate on-the-ground sales and distribution presence across the country.

The company has strong brands likes Magic Moments Vodka, Morpheus Brandy, Verve Vodka, Florence Brandy, After Dark Whisky etc.

## Outlook and valuation

The company has not performed well in the last two years due to increasing raw material costs (ENA is a key raw material) and with it not receiving significant price hikes from various states. We expect the company to perform well going forward in anticipation of better price hikes and healthy sales growth in premium products. This would result in an overall improvement in the operating margin of the company. We expect the company to report strong earnings CAGR of ~13% to ~₹98cr over FY2016-18E. **Hence, we recommend a Buy rating on the stock with a target price of ₹125.**

### Exhibit 5: One-year forward P/E band



Source: Company, Angel Research

## Company Background

Radico Khaitan Ltd is an India-based spirits company engaged in the manufacture of liquor. The company has three distilleries and one JV with total capacity of 150mn litres and 33 bottling units spread across the country. The company is one of the largest providers of branded IMFL to the Canteen Stores Department (CSD), which has significant entry barriers. RKL's brands include After Dark Whisky, Magic Moments Vodka, Morpheus Brandy, Contessa Rum, Old Admiral Brandy and 8 PM. Its liquor business also includes rectified spirit and country liquor. Its alcohol products include rectified spirit, silent spirit, cane juice spirit, malt spirit, grain spirit and ethanol. The company's PET division produces a range of PET bottles and jars for industries such as pharmaceutical, cosmetics, home and personal care, edible oil and confectionery.

**Profit & Loss Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Total operating income</b>	<b>1,258</b>	<b>1,452</b>	<b>1,488</b>	<b>1,543</b>	<b>1,659</b>	<b>1,802</b>
% chg	10.0	15.4	2.5	3.7	7.5	8.6
<b>Total Expenditure</b>	<b>1,074</b>	<b>1,258</b>	<b>1,318</b>	<b>1,348</b>	<b>1,443</b>	<b>1,564</b>
Raw Material Cost	585	653	717	721	771	834
Personnel Expenses	79	93	107	131	129	141
Selling & Administrative Exp.	235	286	284	273	290	315
Others Expenses	176	226	210	224	252	274
<b>EBITDA</b>	<b>184</b>	<b>193</b>	<b>170</b>	<b>195</b>	<b>216</b>	<b>238</b>
% chg	17.7	5.0	(11.9)	14.2	11.0	10.3
(% of Net Sales)	14.6	13.3	11.4	12.6	13.0	13.2
Depreciation & Amortisation	35	39	38	40	43	45
<b>EBIT</b>	<b>149</b>	<b>155</b>	<b>132</b>	<b>154</b>	<b>173</b>	<b>194</b>
% chg	20.4	3.9	(14.6)	16.8	12.3	11.7
(% of Net Sales)	11.8	10.7	8.9	10.0	10.4	10.7
Interest & other Charges	70	85	90	85	89	89
Other Income	30	36	45	38	40	40
(% of PBT)	27.8	34.3	51.6	35.4	32.3	27.7
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>109</b>	<b>106</b>	<b>87</b>	<b>108</b>	<b>124</b>	<b>144</b>
% chg	25.7	(2.6)	(18.1)	23.6	15.1	16.4
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>109</b>	<b>106</b>	<b>87</b>	<b>108</b>	<b>124</b>	<b>144</b>
Tax	32	35	19	31	40	46
(% of PBT)	29.3	33.0	22.4	28.6	32.0	32.0
<b>PAT (reported)</b>	<b>77</b>	<b>71</b>	<b>68</b>	<b>77</b>	<b>84</b>	<b>98</b>
% chg	21.4	(7.8)	(5.1)	13.7	9.6	16.4
(% of Net Sales)	6.1	4.9	4.5	5.0	5.1	5.4
<b>Basic EPS (₹)</b>	<b>5.8</b>	<b>5.4</b>	<b>5.1</b>	<b>5.8</b>	<b>6.3</b>	<b>7.4</b>
<b>Fully Diluted EPS (₹)</b>	<b>5.8</b>	<b>5.4</b>	<b>5.1</b>	<b>5.8</b>	<b>6.3</b>	<b>7.4</b>
% chg	21.2	(7.9)	(5.1)	13.7	9.6	16.4

**Balance Sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	27	27	27	27	27	27
Reserves & Surplus	702	754	812	877	949	1,032
<b>Shareholders Funds</b>	<b>728</b>	<b>781</b>	<b>839</b>	<b>904</b>	<b>976</b>	<b>1,059</b>
Total Loans	768	904	849	851	830	810
Deferred Tax Liability	70	85	85	85	85	85
<b>Total Liabilities</b>	<b>1,566</b>	<b>1,770</b>	<b>1,773</b>	<b>1,840</b>	<b>1,890</b>	<b>1,954</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	744	821	831	851	871	891
Less: Acc. Depreciation	214	250	288	329	371	416
<b>Net Block</b>	<b>529</b>	<b>571</b>	<b>542</b>	<b>522</b>	<b>499</b>	<b>475</b>
Capital Work-in-Progress	5	8	8	8	8	8
<b>Investments</b>	<b>109</b>	<b>108</b>	<b>98</b>	<b>98</b>	<b>98</b>	<b>98</b>
Current Assets	1,161	1,330	1,379	1,471	1,560	1,684
Inventories	186	211	212	220	232	252
Sundry Debtors	435	523	538	562	604	657
Cash	16	15	10	11	14	15
Loans & Advances	314	441	470	492	518	562
Other Assets	209	139	149	185	192	198
Current liabilities	249	262	270	274	290	326
<b>Net Current Assets</b>	<b>912</b>	<b>1,067</b>	<b>1,109</b>	<b>1,197</b>	<b>1,270</b>	<b>1,358</b>
<b>Deferred Tax Asset</b>	<b>11</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>1,566</b>	<b>1,770</b>	<b>1,773</b>	<b>1,840</b>	<b>1,890</b>	<b>1,954</b>



**Cashflow Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	109	106	87	108	124	144
Depreciation	35	39	38	40	43	45
Change in Working Capital	(242)	(53)	(47)	(87)	(70)	(87)
Interest / Dividend (Net)	42	50	90	85	89	89
Direct taxes paid	(23)	(26)	(19)	(31)	(40)	(46)
Others	13	22	-	-	-	-
<b>Cash Flow from Operations</b>	<b>(66)</b>	<b>137</b>	<b>149</b>	<b>115</b>	<b>146</b>	<b>145</b>
(Inc.)/ Dec. in Fixed Assets	48	(141)	11	(20)	(20)	(20)
(Inc.)/ Dec. in Investments	(3)	(0)	(10)	-	-	-
<b>Cash Flow from Investing</b>	<b>46</b>	<b>(141)</b>	<b>0.2</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Issue of Equity	1	1	-	-	-	-
Inc./(Dec.) in loans	97	99	(55)	2	(21)	(20)
Dividend Paid (Incl. Tax)	(12)	(12)	(10)	(12)	(13)	(15)
Interest / Dividend (Net)	(71)	(84)	(90)	(85)	(89)	(89)
<b>Cash Flow from Financing</b>	<b>15</b>	<b>3</b>	<b>(154)</b>	<b>(94)</b>	<b>(123)</b>	<b>(124)</b>
Inc./(Dec.) in Cash	(5)	(1)	(5)	1	2	1
<b>Opening Cash balances</b>	<b>21</b>	<b>16</b>	<b>15</b>	<b>10</b>	<b>11</b>	<b>14</b>
<b>Closing Cash balances</b>	<b>16</b>	<b>15</b>	<b>10</b>	<b>11</b>	<b>14</b>	<b>15</b>

**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	17.4	18.9	19.9	17.5	15.9	13.7
P/CEPS	11.9	12.2	12.7	11.5	10.6	9.4
P/BV	1.8	1.7	1.6	1.5	1.4	1.3
Dividend yield (%)	0.8	0.8	0.8	0.9	0.9	1.1
EV/Sales	1.6	1.5	1.4	1.4	1.2	1.1
EV/EBITDA	10.8	11.0	12.2	10.7	9.5	8.6
EV / Total Assets	1.1	1.0	1.0	1.0	0.9	0.9
<b>Per Share Data (₹)</b>						
EPS (Basic)	5.8	5.4	5.1	5.8	6.3	7.4
EPS (fully diluted)	5.8	5.4	5.1	5.8	6.3	7.4
Cash EPS	8.5	8.3	8.0	8.8	9.5	10.7
DPS	0.8	0.8	0.8	0.9	1.0	1.1
Book Value	54.8	58.7	63.0	67.9	73.3	79.6
<b>Returns (%)</b>						
ROCE	10.0	9.2	7.8	8.8	9.6	10.4
Angel ROIC (Pre-tax)	10.9	9.9	8.4	9.4	10.2	11.0
ROE	10.6	9.1	8.1	8.5	8.6	9.3
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	2.4	2.5	2.7	3.0	3.3	3.8
Inventory / Sales (days)	54	53	52	52	51	51
Receivables (days)	126	132	132	133	133	133
Payables (days)	36	33	33	32	31	31
WC cycle (ex-cash) (days)	144	152	151	153	153	153

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### Radico Khaitan

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)