

Radico Khaitan

Performance Highlights

Quarterly Data

(₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
Revenue	447	403	11.1	430	3.9
EBITDA	56.8	49	15.8	57	(0.6)
Margin (%)	12.7	12.2	52bp	13.3	(57bp)
Adj. PAT	22	17	27.4	22	1.3

Source: Company, Angel Research

For 2QFY2017, Radico Khaitan reported results above our estimates both on top-line and bottom-line front. The company's top-line grew by ~11% yoy to ₹447cr on back of higher sales of premium products, while the bottom-line grew by ~27% yoy to ₹22cr on the back of improvement in volume and healthy operating performance.

Top-line grew by ~11% yoy: Overall, the volume growth during the quarter was of 4.5% yoy, which resulted in the top-line growing by ~11% yoy to ₹447cr (vs. ₹396cr expected). 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 by ~13% yoy, while their contribution to total IMFL volumes increased from 24.7% in 2QFY2016 to 26.7% in 2QFY2017.

Overall improvement in the revenue boost the PAT growth yoy: On the operating front, the company's margin improved by 52bp yoy to 12.7%, primarily on account of a favorable shift in the product mix from regular to premium products. The company reported ~27% yoy rise in its net profit to ₹22cr for the quarter on the back of improvement in volume and healthy operating performance.

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 an ACCUMULATE rating on the stock with a target price of ₹147.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	1,488	1,543	1,667	1,824
% chg	2.5	3.7	8.0	9.4
Net profit	68	77	88	109
% chg	(5.1)	13.7	15.1	23.1
EBITDA margin (%)	11.4	12.6	13.0	13.2
EPS (₹)	5.1	5.8	6.6	8.2
P/E (x)	26.6	23.4	20.3	16.5
P/BV (x)	2.1	2.0	1.8	1.7
RoE (%)	8.1	8.5	9.0	10.2
RoCE (%)	7.8	8.8	10.1	11.1
EV/Sales (x)	1.7	1.6	1.5	1.3
EV/EBITDA (x)	14.9	13.0	11.2	9.9

Source: Company, Angel Research, Note: CMP as of November 3, 2016

ACCUMULATE

CMP	₹135
Target Price	₹147

Investment Period	12 months
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Stock Info

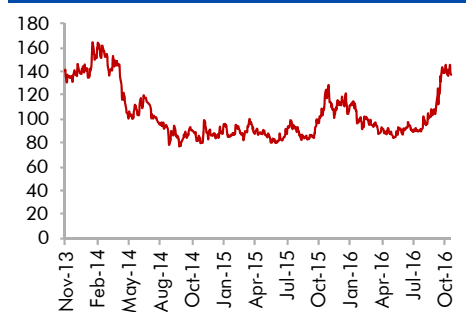
Sector	Breweries & Distilleries
Market Cap (₹ cr)	1,829
Net Debt (₹ cr)	742
Beta	0.8
52 Week High / Low	151 / 81
Avg. Daily Volume	273,709
Face Value (₹)	2
BSE Sensex	27,274
Nifty	8,434
Reuters Code	RADC.BO
Bloomberg Code	RDCK@IN

Shareholding Pattern (%)

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

Abs. (%)	3m	1yr	3yr
Sensex	(1.6)	2.7	30.0
RKL	52.7	26.8	(2.8)

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: Quarterly performance

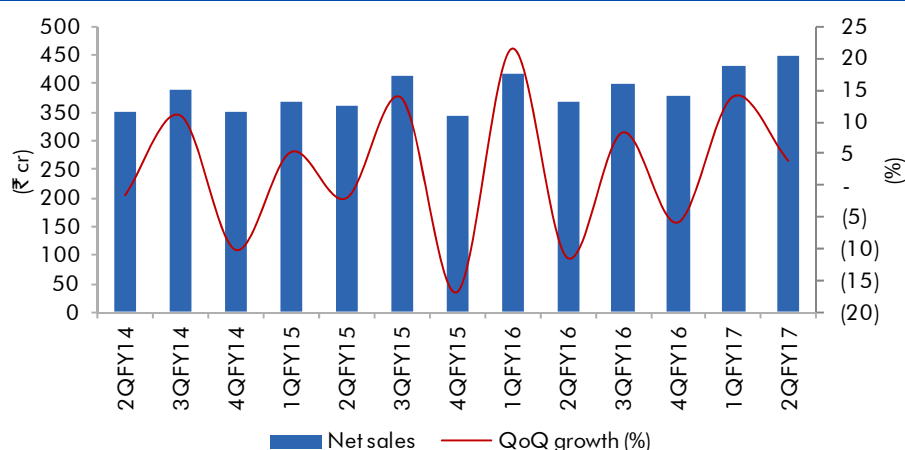
Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq	1HFY17	1HFY16	% chg
Net Sales	447	403	11.1	430	3.9	878	820	7.0
Consumption of RM	261	226	15.1	229	13.9	489	453	8.1
(% of Sales)	58.2	56.2		53.1		55.7	55.2	
Staff Costs	34	33	4.3	36	(6.1)	71	63	12.1
(% of Sales)	7.6	8.1		8.5		8.0	7.7	
Selling & Administrative Exps.	58	43	35.0	42	38.6	100	84	19.0
(% of Sales)	13.0	10.7		9.8		11.4	10.3	
Operating Expense	37	51	(26.9)	66	(43.3)	104	124	(16.5)
(% of Sales)	8.4	12.7		15.4		11.8	15.1	
Total Expenditure	390	354	10.4	373	4.6	764	724	5.5
Operating Profit	57	49	15.8	57	(0.6)	114	96	18.7
OPM (%)	12.7	12.2		13.3		13.0	11.7	
Interest	21	21	(0.9)	21	(3.6)	42	42	(0.2)
Depreciation	11	11	(2.6)	10	0.3	21	22	(2.3)
Other Income	4.43	8.09	(45.3)	3.85	14.9	8	18	(53.6)
PBT	30	26	17.8	29	3.4	59	50	17.9
(% of Sales)	6.7	6.3		6.8		6.7	6.1	
Provision for Taxation	8	8	(2.6)	7	11.0	14	15	(1.5)
(% of PBT)	25.1	30.4		23.4		24.3	29.0	
Other Comprehensive Inc /Exp (Net of Tax)	1	1		1		1	1	
Reported PAT	22	17	27.4	22	1.3	43	34	26.3
PATM	4.9	4.2		5.0		4.9	4.2	

Source: Company, Angel Research

Top-line grew by ~11% yoy

Overall, the volume growth during the quarter was of 4.5% yoy, which resulted in the top-line growing by ~11% yoy to ₹447cr (vs. ₹396cr expected). 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 by ~13% yoy, while their contribution to total IMFL volumes increased from 24.7% in 2QFY2016 to 26.7% in 2QFY2017.

Exhibit 2: Top-line growth trend

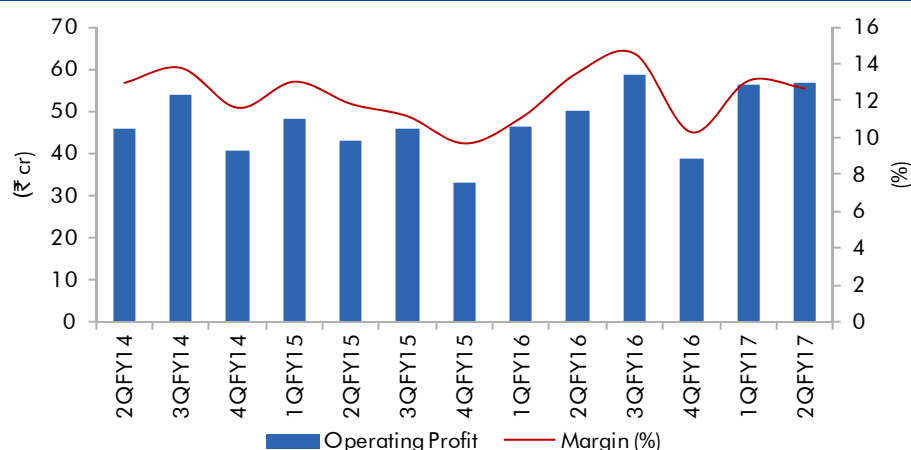


Source: Company, Angel Research

Strong operating performance

On the operating front, the company's margin improved by 52bp yoy to 12.7%, primarily on account of a favorable shift in the product mix from regular to premium products.

Exhibit 3: Operating profit and margin trend

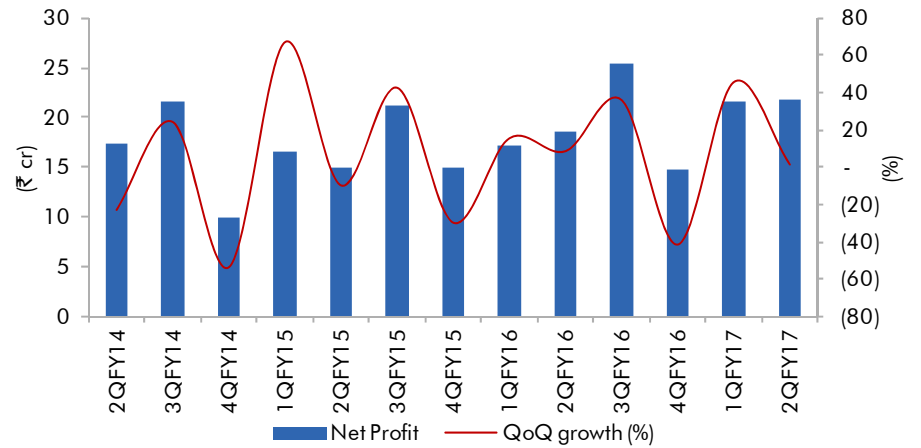


Source: Company, Angel Research

PAT grew by ~27% yoy

The company reported ~27% yoy rise in its net profit to ₹22cr for the quarter on the back of improvement in volume and healthy operating performance.

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

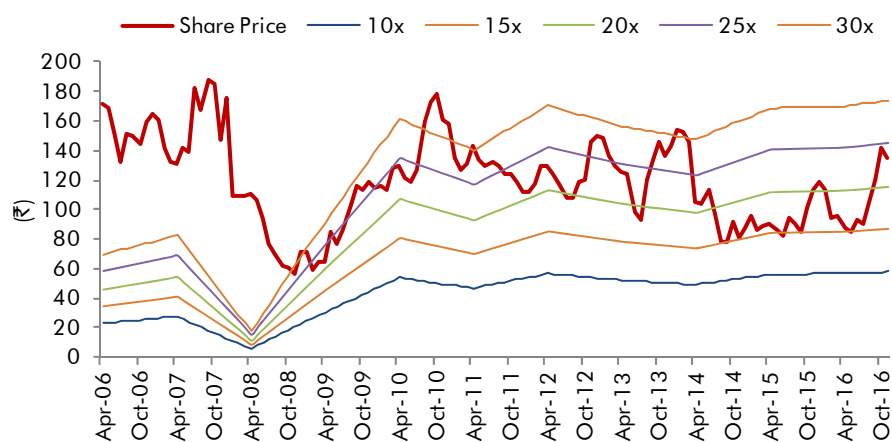
RKL has a strong sales and distribution network with a presence in retail and off-trade outlets in the relevant segments in different parts of India. Currently, the company is selling its products through over 45,000 retail outlets and over 5,000 on-premise outlets. Apart from wholesalers, a total of 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 ~19% to ~₹109cr over FY2016-18E. **Hence, we recommend an ACCUMULATE rating on the stock with a target price of ₹147.**

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
Total operating income	1,258	1,452	1,488	1,543	1,667	1,824
% chg	10.0	15.4	2.5	3.7	8.0	9.4
Total Expenditure	1,074	1,258	1,318	1,348	1,450	1,583
Raw Material Cost	585	653	717	721	775	844
Personnel Expenses	79	93	107	131	130	142
Selling & Administrative Exp.	235	286	284	273	291	319
Others Expenses	176	226	210	224	253	277
EBITDA	184	193	170	195	217	241
% chg	17.7	5.0	(11.9)	14.2	11.5	11.1
(% of Net Sales)	14.6	13.3	11.4	12.6	13.0	13.2
Depreciation & Amortisation	35	39	38	40	43	45
EBIT	149	155	132	154	174	197
% chg	20.4	3.9	(14.6)	16.8	13.1	12.7
(% of Net Sales)	11.8	10.7	8.9	10.0	10.5	10.8
Interest & other Charges	70	85	90	85	84	76
Other Income	30	36	45	38	40	40
(% of PBT)	27.8	34.3	51.6	35.4	30.7	25.0
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	109	106	87	108	130	160
% chg	25.7	(2.6)	(18.1)	23.6	20.8	23.1
Prior Period & Extra. Exp./ (Inc.)	-	-	-	-	-	-
PBT (reported)	109	106	87	108	130	160
Tax	32	35	19	31	42	51
(% of PBT)	29.3	33.0	22.4	28.6	32.0	32.0
PAT (reported)	77	71	68	77	88	109
% chg	21.4	(7.8)	(5.1)	13.7	15.1	23.1
(% of Net Sales)	6.1	4.9	4.5	5.0	5.3	6.0
Basic EPS (₹)	5.8	5.4	5.1	5.8	6.6	8.2
Fully Diluted EPS (₹)	5.8	5.4	5.1	5.8	6.6	8.2
% chg	21.2	(7.9)	(5.1)	13.7	15.1	23.1

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	27	27	27	27	27	27
Reserves & Surplus	702	754	812	877	953	1,045
Shareholders Funds	728	781	839	904	979	1,072
Total Loans	768	904	849	851	755	700
Deferred Tax Liability	70	85	85	85	85	85
Total Liabilities	1,566	1,770	1,773	1,840	1,819	1,857
APPLICATION OF FUNDS						
Gross Block	744	821	831	851	871	891
Less: Acc. Depreciation	214	250	288	329	371	416
Net Block	529	571	542	522	499	475
Capital Work-in-Progress	5	8	8	8	8	8
Investments	109	108	98	98	98	98
Current Assets	1,161	1,330	1,379	1,471	1,508	1,652
Inventories	186	211	212	220	233	255
Sundry Debtors	435	523	538	562	608	665
Cash	16	15	10	11	14	18
Loans & Advances	314	441	470	492	520	569
Other Assets	209	139	149	185	133	146
Current liabilities	249	262	270	274	311	392
Net Current Assets	912	1,067	1,109	1,197	1,198	1,260
Deferred Tax Asset	11	15	15	15	15	15
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,566	1,770	1,773	1,840	1,819	1,857

Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	109	106	87	108	130	160
Depreciation	35	39	38	40	43	45
Change in Working Capital	(242)	(53)	(47)	(87)	2	(59)
Interest / Dividend (Net)	42	50	90	85	84	76
Direct taxes paid	(23)	(26)	(19)	(31)	(42)	(51)
Others	13	22	-	-	-	-
Cash Flow from Operations	(66)	137	149	115	217	171
(Inc.)/ Dec. in Fixed Assets	48	(141)	11	(20)	(20)	(20)
(Inc.)/ Dec. in Investments	(3)	(0)	(10)	-	-	-
Cash Flow from Investing	46	(141)	0.2	(20)	(20)	(20)
Issue of Equity	1	1	-	-	-	-
Inc./(Dec.) in loans	97	99	(55)	2	(97)	(55)
Dividend Paid (Incl. Tax)	(12)	(12)	(10)	(12)	(13)	(16)
Interest / Dividend (Net)	(71)	(84)	(90)	(85)	(84)	(76)
Cash Flow from Financing	15	3	(154)	(94)	(194)	(147)
Inc./(Dec.) in Cash	(5)	(1)	(5)	1	3	4
Opening Cash balances	21	16	15	10	11	14
Closing Cash balances	16	15	10	11	14	18

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	23.2	25.2	26.6	23.4	20.3	16.5
P/CEPS	15.9	16.3	16.9	15.3	13.7	11.7
P/BV	2.5	2.3	2.1	2.0	1.8	1.7
Dividend yield (%)	0.6	0.6	0.6	0.6	0.7	0.9
EV/Sales	1.9	1.8	1.7	1.6	1.5	1.3
EV/EBITDA	13.2	13.3	14.9	13.0	11.2	9.9
EV / Total Assets	1.3	1.3	1.2	1.2	1.1	1.1
Per Share Data (₹)						
EPS (Basic)	5.8	5.4	5.1	5.8	6.6	8.2
EPS (fully diluted)	5.8	5.4	5.1	5.8	6.6	8.2
Cash EPS	8.5	8.3	8.0	8.8	9.9	11.5
DPS	0.8	0.8	0.8	0.9	1.0	1.2
Book Value	54.8	58.7	63.0	67.9	73.6	80.6
Returns (%)						
ROCE	10.0	9.2	7.8	8.8	10.1	11.1
Angel ROIC (Pre-tax)	10.9	9.9	8.4	9.4	10.8	11.9
ROE	10.6	9.1	8.1	8.5	9.0	10.2
Turnover ratios (x)						
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

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

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)