

Radico Khaitan

Nifty: 21840

CMP: INR 1,710

Target Price: INR 1,695

WHERE ADVISORY MEETS EXCELLENCE

Breweries & Distilleries

Radico Khaitan, a leading producer of Indian Made Foreign Liquor, has exceeded expectations in Q3, showing a 29.1% YoY net revenue growth. The notable growth came from The Prestige & Above segment, which saw a 29.1% YoY increase and a remarkable 174% YoY growth in the non-IMFL segment. This was driven by strong performance in the CL segment with price hikes (~60-65%) and bulk alcohol sales from the newly established Sitapur plant. Despite challenges in commodity prices, the company maintained robust gross margins by strategic pricing and capitalizing on premiumization trends. With current debt at Rs. 669.5 crores in Q3FY24, Radico Khaitan aims to achieve a debt-free status by FY26. The company plans to continue making prudent marketing investments in core brands and new launches to sustain growth and market share. While we are positive about the company's future success, caution regarding valuations leads us to recommend a "HOLD" rating.

Improved P&A movement:

In Q3FY24, there was a strong performance, highlighted by a remarkable 29.1% YoY growth in the Prestige & Above category brands. Volume in the Prestige & Above category surged by 20.2%. The significant increase in Non-IMFL revenue (174% YoY) was driven by higher volumes of country liquor from the Sitapur bottling plant and the implementation of price hikes from April 1, 2023. It's notable that the contribution of the Prestige & Above category to IMFL volume rose from 42.4% in Q3FY2023 to 49.9% in Q3FY24.

Healthy Margins:

The Gross Profit has shown impressive growth with a substantial 46.7% YoY increase in gross margins, reaching 41.8% in Q3FY2024. This notable improvement is attributed to price hikes and the ongoing premiumization trend in the Indian Made Foreign Liquor (IMFL) sector, along with upward price adjustments in the Country Liquor business. Despite challenges like commodity inflation in Extra Neutral Alcohol (ENA) and grain prices, the company has successfully maintained Gross Margins on a quarter-on-quarter basis. While some packaging materials have experienced recent price softening, vigilance remains high, particularly regarding ENA and glass bottles, due to persistent volatility. With current

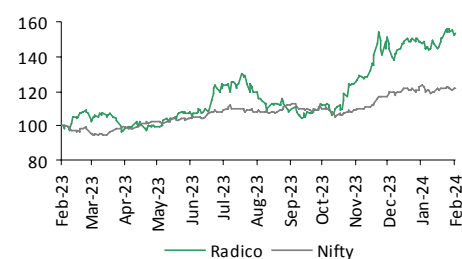
net debt at Rs. 669.5 crores in Q3FY24, Radico Khaitan aims for a debt-free status by FY26. The commencement of production at the Sitapur facility, combined with the expansion of the Prestige & Above mix and management's commitment to achieving a debt-free status by FY26, is expected to further strengthen the company's margins. Management's guidance of reaching EBITDA Margins in the range of 14-15% over the next two to three years supports this outlook.

Outlook & Valuation:

Radico Khaitan showcased strong performance in Q3FY24, achieving noteworthy revenue growth. The company's consistent focus on premiumization, new product introductions, and a reinforced presence in the Defense segment are anticipated to bolster profit margins in the forthcoming years. Management's confidence in attaining mid-teens growth for Prestige & Above volumes and mid-single digits growth for the regular portfolio, along with strategic launches in the premium segment and the ongoing premiumization trend, positions the company for sustained robust performance. While concerns persist regarding margin recovery due to factors like raw material volatility and growth in the regular portfolio, as well as potential capex-related

Shareholding (%)	Dec-23
Promoters	40.26
Mutual Funds	18.39
Other Domestic Institutions	5.60
FII	19.01
Retail and Others	16.74

Relative Price Performance



Key Data	
NSE Symbol	RADICO
Bloomberg Code	RDCK
Reuters Code	RADC.BO
Shares Outstanding	133,673,765
Face Value	2
Mcap (In cr)	22,948
52 week H/L	1,885.10 /1068.55
Beta	0.32

Board of Directors	
Name	Designation
Mr. Lalit Kumar Khaitan	Executive Director-Chairperson-MD
Mr. Abhishek Khaitan	Executive Director-MD
Dilip K. Banthiya	Chief Financial Officer
Mr. K.P.Singh	Executive Director
Mr. Dinesh Kumar Gupta	Vice President - Legal, Company Secretary & Compliance Officer

(In Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenue	2374	2859	3143	3939.51	4410.13
PAT	277	263	220	505.00	601.56
EPS	20.75	19.69	16.48	37.78	45.00

Breweries & Distilleries

costs impacting earnings, the company has effectively upheld solid margins. Overall, we maintain a positive outlook on Radico Khaitan's growth potential, but exercising caution regarding valuations, we recommend a "HOLD" rating for this stock in comparison to the market price.

Key Risk:

1. Increase in some of the key input materials, which has impacted profitability margins particularly in the non-IMFL segment.

2. Government intervention: Considering the fact that in India every state has its own policy on alcohol consumption which therefore creates a challenge for alcohol companies
3. Governance on policies on alcohol industry is spread state wise and therefore it becomes a challenge for all the alcohol companies. This also makes distribution, marketing & taxation policies different from state to state. Irregular excise hikes/regulatory changes in key markets.

Particulars (Amount in Lakhs)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	4,24,595.64	3,71,505.46	14%	3,16,619.04	34%	11,98,432.59	9,36,855.49	28%
Cost of material consumed	68,678.52	54,552.12	26%	46,927.68	46%	1,78,169.74	1,40,391.67	27%
Purchase of stock-in-trade	147.96	(51.78)	-386%	264.82	-44%	(10.94)	281.11	-104%
Changes in inventories of finished goods, work-in-progress and stock-in-trade (net of excise duty)	(1,311.55)	(2,831.06)	-54%	(711.97)	84%	(5,175.29)	(6,937.98)	-25%
Excise duty on sales	3,08,504.16	2,79,005.11	11%	2,37,403.64	30%	8,94,448.71	7,05,757.93	27%
Employee benefits expense	5,887.29	4,862.87	21%	4,554.32	29%	14,883.58	12,215.13	22%
Selling & distribution expenses	11,322.40	10,137.20	12%	7,858.12	44%	32,055.13	24,578.59	30%
Other expenses	17,086.31	13,710.62	25%	10,638.00	61%	45,709.72	32,625.78	40%
EBITDA	14,280.55	12,120.38	18%	9,684.43	47%	38,351.94	27,943.26	37%
EBITDA Margin (%)	3%	3%	3%	3%	10%	3%	3%	7%
Depreciation and amortisation expense	3,178.69	2,612.15	22%	1,706.25	86%	8,224.43	5,098.37	61%
EBIT	11,101.86	9,508.23	17%	7,978.18	39%	30,127.51	22,844.89	32%
Finance Costs	1,771.72	1,247.09	42%	608.72	191%	4,246.26	1,310.60	224%
Other Income	482.77	68.71	603%	271.69	78%	663.25	802.36	-17%
Profit before tax	9,812.91	8,329.85	18%	7,641.15	28%	26,544.50	22,336.65	19%
Taxes	2,431.18	2,143.15	13%	1,938.86	25%	6,652.75	5,624.67	18%
Profit After Tax (PAT)	7,381.73	6,186.70	19%	5,702.29	29%	19,891.75	16,711.98	19%
PAT Margins (%)	2%	2%	4%	2%	-3%	2%	2%	-7%

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