VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

Radico Khaitan Ltd

BUY

Target Price Rs 210	**CMP Rs 157**	**1QFY20E PE 22X**

Index Details

Sensex	31,600
Nifty	9,871
Industry	Liquor

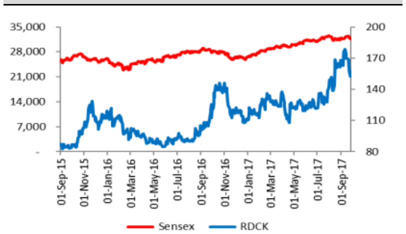
Scrip Details

Mkt Cap (Rscr)	2,090.36
BVPS (Rs)	91.07
O/s Shares (Cr)	13.3
Av Vol	1,22,992
52 Week H/L	105/184
Div Yield (%)	0.6
FVPS (Rs.)	2

Shareholding Pattern

Shareholders	%
Promoters	40.5
Public	59.5
Total	100.0

RDCK vs. Sensex



Radico Khaitan (RDCK) has transformed itself from a major spirits supplier to a large branded products company in the IMFL (Indian Made Foreign Liquor) space from 1998. IMFL accounted for 65% of its revenues in FY17. Its brands, 8PM whisky, Magic Moments vodka, Contessa rum and Old Admiral brandy, are among the top selling brands in their category. Premium brands accounted for 44% of its IMFL sales in FY17 and it launched six brands in the last five years in premium categories. Its strong distribution network of 55,000 retailers, across India, accounts for 90% of its revenues.

Over the period FY17-20E, we expect CAGR growth in revenues of 6.6%, EBITDA to grow by 12% and PAT by 22.6%. Return ratios - ROE and ROCE - too are expected to grow by 305 bps to 10.9% and by 386 bps to 19.5%, respectively. The key reason for margin expansion is the increased focus on premium brands.

We initiate coverage on RDCK as a BUY with a price objective of Rs 210, representing a potential upside of 33% in the next 12 months. We arrived at the price target by applying 22 times PE multiple to earnings for the 12 months period to June19.

Our optimism stems from the following: -

- Favorable demographic characteristics of India with 66% of its 2016 population within legal drinking age rising to 68% by 2021. Key growth drivers will be rapid urbanization (40% by 2025) and changing consumption pattern accepting higher quality and lifestyle products.
- In 2017-2021 the IMFL Industry expects 8% growth in by value. Blended Scotch and Single Malt Scotch are expected to lead with 13.2% growth each. Vodka industry value growth will be 8.2%.
- RDCK is focused on innovation and brand building, growing in the premium segments and improving its balance sheet by reducing debt. We forecast a 32% increase in net worth and a 25% reduction in debt over FY17-20.
- At end of FY17, RDCK had a total debt of Rs 799 cr RDCK intends to repay the long-term debt of Rs103 cr from internal cash generation by FY19. The savings in the interest costs will lead to PAT expansion by a CAGR (FY17-20E) 23%.

Key Financials (Rs. in Cr)

Y/E Mar	Net sales	EBITDA	PAT	EPS (Rs.)	EPS Growth (%)	ROE (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
2017	1,684	212	81	6.1	10.1	7.8	15.7	22.7	8.8
2018E	1,726	243	103	7.7	27.3	9.2	18.0	20.4	8.6
2019E	1,856	266	122	9.2	19.2	9.9	19.0	17.1	7.6
2020E	2,039	298	148	11.1	21.3	10.9	19.5	14.1	6.7

STOCK POINTER

Tuesday, 26 September, 2017

❖ Company Background

Radico Khaitan (RDCK) is a distillery and brewery company manufacturing alcohol & alcoholic products. It was established in 1943 as Rampur Distillery & Chemical company. It was a bottling company for other’s spirits. Dr. Lalit Khaitan and his father acquired it in 1972 as a part of the family business. In 1996, the family business was split and Mr. Lalit Khaitan got the Rampur Distillery Company as his share of the family assets. The distillery generated revenue of ~Rs 70 crore per annum but was incurring losses of about Rs 10 crore a year. The liabilities of Rs 40 crore were also to be taken over.

Mr. Lalit Khaitan was joined by his son, Mr. Abhishek Khaitan, an engineer, to run the business. After the loss of the biggest contract of Shaw & Wallace, the company needed some drastic measures to save it from closure. That was when Mr. Abhishek Khaitan, enthused by the launch of Gilbey’s Green Label, dreamed of launching RDCK’s brands too. The father-son duo set off to turn around the company from a loss-making bottling unit to a well branded liquor company. The company was to move from a high-volume low-margin business to a low-volume high-margin business.

Product Range

Source: RDCK, Ventura Research

In 1999, it conceptualized the innovative idea of offering blended scotch whisky and was the first company to position 8PM as India's premium whisky. It went on to achieve a record of sale of 10 lakh cases in the year of launch. Towards the end of 2002, to penetrate the Brandy market, RDCK launched Old Admiral, a regular range brandy.

Being promoted as a drink *For Real Men Only*, it caught the sensibilities of the drinkers, and sold 27.3 cr cases in FY 2010.

The company entered the vodka segment in 2006, with the launch of its Magic Moments vodka, creating a new price point in the vodka segment. The innovative packaging, with a unique guitar shaped window, was different from other brands in this category.

Year of launch	Brands	Segment Range
1998	8PM Whisky	Regular
2002	Old Admiral Brandy	Regular
2006	Magic Moments Vodka	Semi Premium
2009	Morpheus Brandy	Super Premium
2011	After Dark Whisky	Premium
2012	Verve Vodka	Super Premium
2013	Verve flavoured Vodka	Super Premium
2014	Morpheus Blue Brandy	Super Premium
2015	ELECTRA ready to drink	Super Premium
2016	Rampur Indian Single Malt	Super Premium (Only Exports)
2016	Regal Talons Whisky	Deluxe

Source: RDCK, Ventura Research

Contessa Rum is yet another millionaire brand with close to 20% market share in the CSD Rum market. It was also the recipient of awards in the ISC & Monde selection in 2008. The company launched 'Morpheus brandy' in 2009; a premium aged brandy, and 'After Dark', a fine grain whisky and 'Eagles Dare' whisky in 2010. With this, RDCK established itself as a key player in the premium segment.

RDCK enhanced its premium product line-up in Vodka and launched Verve Magic Moments Vodka in 2012. It captured an 8% market share in the premium segment within the first 8 months of its launch. It was launched in distinctive flavours - Verve Green Apple and Verve Orange.

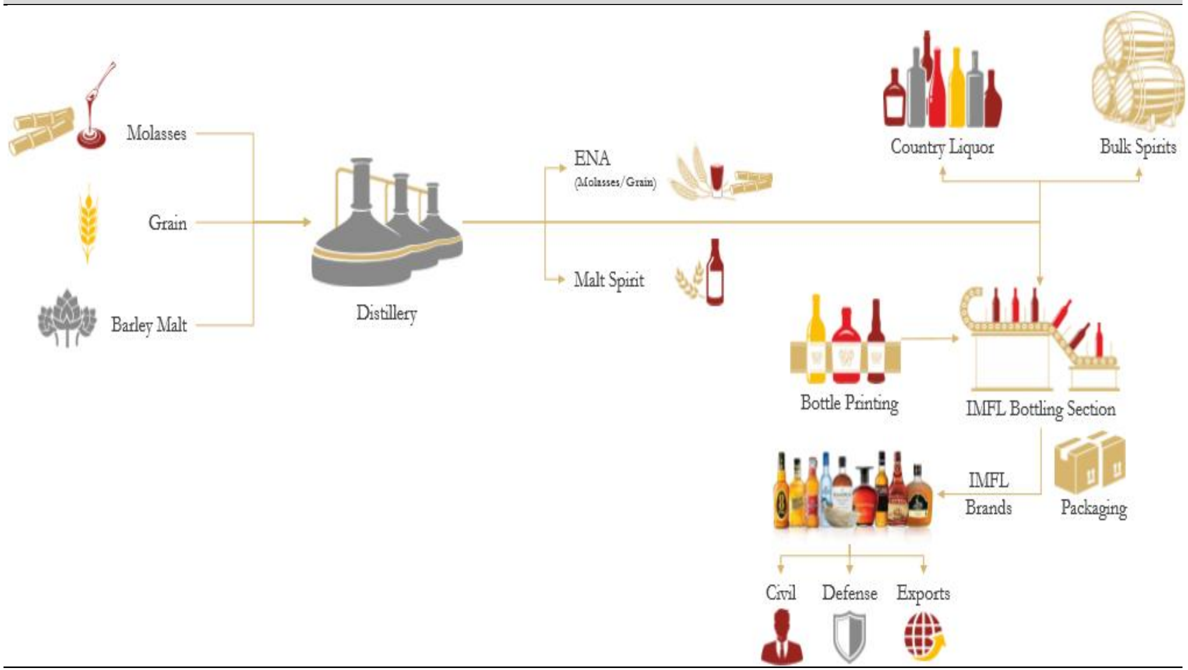
The Magic Moments family of vodka leads the Indian vodka industry with a market share of over 50%. The Millionaire Club ranked Magic Moments as the 12th largest vodka globally.

To capitalise the company's expertise in the Vodka, RDCK has launched Electra in 2015. Electra is a triple distilled and triple filtered with carbon/ silver/ platinum Vodka. It is a Ready-to-drink beverage.

In 2016, RDCK launched Rampur Indian Single Malt Whiskey as a premium brand. Aged in the foothills of the Himalayas for more than 25 years, it has an all-round balanced taste. It is promoted leveraging its rich heritage in an exquisite hand-crafted silk pouch, imparting a royal and luxurious touch. This brand competes against other scotch in the international markets. The company also launched Pluton Bay, a rare exotic Rum.

RDCK has become one of the largest players in the Indian Spirits industry. The company has reported a sale of more than 10 lakh cases in its leading brands - 8PM Whisky, Magic Moments Vodka, Contessa Rum and Old Admiral Brandy. The company marks its presence in more than 70 countries worldwide. However, this contributed a very small part of the revenues at ~10% in FY17.

Integrated Business Model



Source: RDCK, Ventura Research

❖ Key Investment Highlights:

➢ Strong Brand Portfolio:

RDCK is one of the oldest and the largest manufacturers of Indian Made Foreign Liquor. Commenced as a bottling unit, it went on to launch its own brand, 8PM Whiskey, in 1998. 8PM Whiskey was an immediate success and sold more than 10 lakh cases in the first year of its launch. The company has a strong brand portfolio, thereby making it the 3rd biggest liquor company in the listed space.

Beverage	RDCK's Brands	Competing Brands
Whiskey	Rampur Indian Super Malt	Paul John Single Cask, Amrut Cask Strength, Paul John Brilliance
	After Dark Regal Talons	Bagpiper, McDowell's No.1
	Regal Talons	Royal Casino Whiskey, Kingdom Premium Whiskey
	8 PM Admiral	Imperial Blue Superior Grain Whiskey
RUM	Pluton Bay	McDowell's No. 1 Celebration XXX Rum, Revolution Premium XXX Rum
	Contessa White	Royal Gold XXX Rum, Black Horse Rum
	Contessa Bermuda	Old Monk Deluxe Rum
	Lord Nelson	Tusker XXX Rum
Brandy	Morpheus	Bajois Napoleon Brandy, Bols Brandy X O Excellence
	Old Admiral	Amrut's Silver Cup Brandy
Vodka	Verve, Verve Flavoured	Seagram's Fuel Vodka, Eristoff- Red Vodka
	Magic Moments, magic moments remix	Oxygen Apple Vodka, White Mischief Vodka Ultra
Ready to Drink	Electra	Breezer

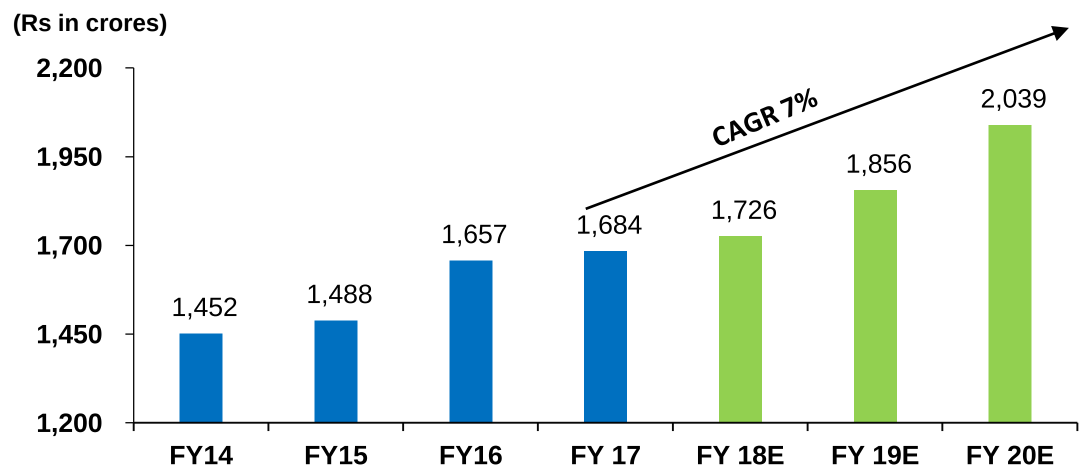
Source: RDCK, Ventura Research

RDCK is very competitive in the liquor industry. It has launched products is all ranges from regular to premium. It is currently focusing on the premium range by launching brands like Rampur Indian Super Malt, Pluto Bay, Electra, etc., while, its brands like 8PM, Admiral Whiskey and Old Admiral Brandy continue to be popular in the regular segment.

➢ Held its Sail in Harsh Weather:

In the past years, the Indian spirits industry has faced many obstacles such as state government ban on liquor consumption, no price hikes in government regulated markets and a ban on selling liquor close to national highways. RDCK has managed to report a growth in revenues, despite a fall in the industry growth momentum. The company reported a revenue CAGR (FY14-17) of 5%. We expect the revenues to grow at a 7%CAGR (FY17-20E). Moreover, RDCK has its presence in ~70 countries in the international markets.

Net Revenues



Source: RDCK, Ventura Research

Most of the brands launched by RDCK have made it to the top of the preference list of the consumers. RDCK is one of the few companies in India to have developed its entire brand portfolio organically. 8PM Whisky, Contessa Rum, Old Admiral Brandy and Magic Moments Vodka currently are the most popular brands and each garner sales of more than 10 lakh cases per year.

Top products of Radico Khaitan			
16th largest Whisky by volume	12th largest Vodka by volume	6th largest Rum by volume	2nd largest Brandy by volume
			

Source: RDCK, *Ventura Research*

Brands play a very important role for liquor consumers. The company has consciously been focusing on the premium segment. RDCK has come a long way from being identified as a bottler or known for its country liquor; it is now identified as a leading IMFL company, with a highly reputed brand portfolio. With its first brand - 8PM, the company took-off and created a mark for itself. RDCK's intended shift from a high-volume low-margin business to a low-volume high-margin business seems to be playing out.

- **Focus on premium segment to drive future growth:**

In the recent years, the company has launched numerous premium products, such as Pluton Bay Rum and Rampur Single Malt Whiskey. It launched Electra to enter the Ready-to-Drink segment. Electra is an 8% Vodka infused drink. RDCK's research and development team is focused on innovating across brand categories and operations.

Rampur Single Malt Whiskey	Electra	Pluton Bay Rum
		

Source: RDCK, *Ventura Research* — *Source: RDCK*, *Ventura Research* — *Source: RDCK*, *Ventura Research*

Industry is Fast Growing on the back of Favourable Market Dynamics:

The per-capita consumption of liquor in India is significantly lower than other countries. With the rapidly growing Indian economy, there is an increase in disposable income. The paradigm shift in the acceptance of social drinking is the leading growth driver of the industry.

Growing discretionary incomes, rapid urbanization, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, have led to an increase in alcohol consumption in India. India's per capita consumption (2.2 litres per annum) of alcoholic beverages is among the lowest in the world (over 7.5 litres per annum). Globalization has lead Indians to travel and explore different types of liquors, which has created a demand for finer tastes. Even a small increase in per capita consumption will lead to a noteworthy growth in the industry. Change in consumption patterns and consumer preferences have resulted in a significant growth opportunity for RDCK.

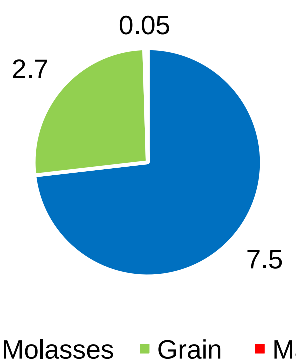
Strategic Location of Distilleries ensures Availability of Raw Materials:

RDCK has 5 distilleries strategically located in two of the largest sugarcane producing states - Maharashtra and Uttar Pradesh. 3 distilleries are in Rampur, Uttar Pradesh and 2 are in Aurangabad, Maharashtra. The strategic location of distilleries allows availability of molasses and unhindered operations in the distillery. Availability of molasses is very crucial to the liquor industry since it forms more than 15% of the material costs.

The Rampur Distillery plant has an ENA (Extra Neutral Alcohol) capacity of 10.25 crore litres per annum. It is one of the largest distilleries in India. The Aurangabad distillery has an ENA capacity of 5.5 crore litres per annum.

Rampur Distillery ENA Capacity

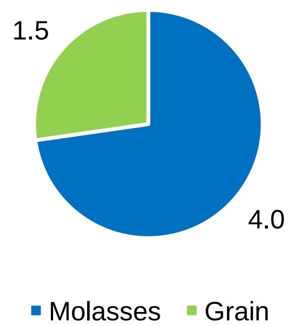
(Capacity in crore litres)



Source: RDCK, Ventura Research

Aurangabad Distillery ENA Capacity

(Capacity in crore litres)



Source: RDCK, Ventura Research

RDCK has a total ENA manufacturing capacity of 11.5 crore litres from molasses, 4.2 cr litres from grain and 4.6 lakh litres from malt. It has licensed capacity of 1,988 cr litres per annum of molasses/ spirits/ and malt spirit and is operating at 95% of its capacity. It also has an ENA storage capacity of 3 months. Thereby, safeguarding the exposure of the company to the price volatility of ENA.

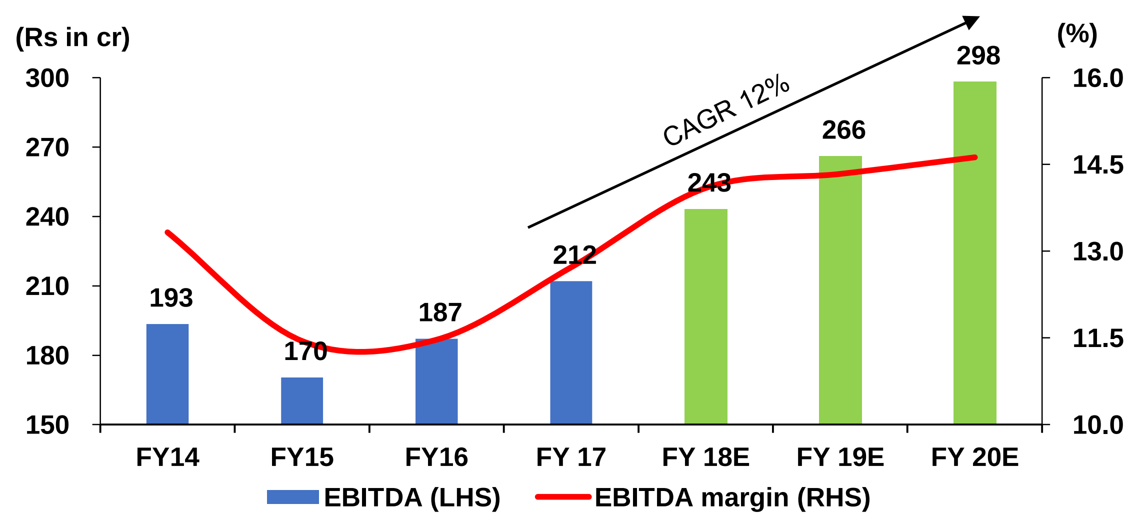
The company has 28 bottling units out of which 5 are owned. The company has a bottling unit across all states, thereby reducing the transport costs. RDCK has a strong distribution network; ~55,000 retail outlets and ~5,000 on premise outlets. The distribution is supported by regional marketing services.

The Extra Neutral Alcohol or ENA is a high distillated alcohol without any impurities and is used for the production of alcoholic beverages such as whisky, vodka, gin, cane, liqueurs and alcoholic fruit beverages and aperitifs.

- **EBITDA Margin Expansion to be a Game Changer:**

The EBITDA margin has improved by 125bps YoY in FY17 to 12.7%. RDCK's focus on launching products in the premium segment will lead to margin expansion. The company is undertaking cost optimization measures to ensure margin growth. We expect the EBITDA to grow by a CAGR (FY17-20E) of 12% to Rs 298 cr.

EBITDA and EBITDAM



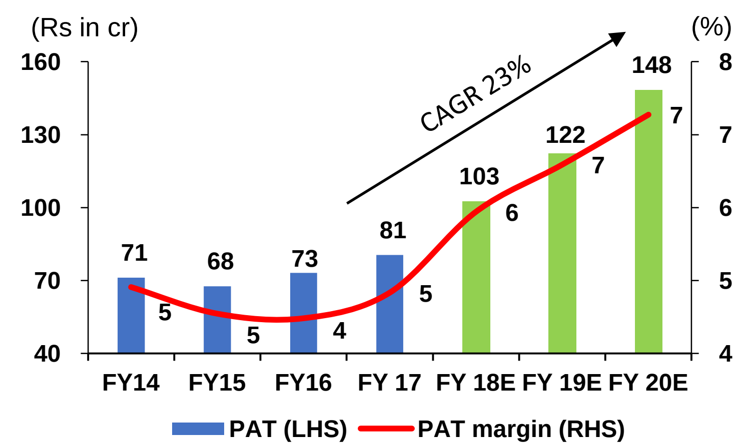
Source: RDCK, *Ventura Research*

➢ Debt repayment to boost profitability:

The company has reduced its long-term debt from Rs 321 cr in FY15 to Rs 103 cr in FY17. RDCK has repaid debt of Rs 92.4 cr in FY17. As on 31 March 2017, the company had a long-term debt of Rs 103 cr. RDCK intends to repay the long-term debt from its internal cash generation by FY19.

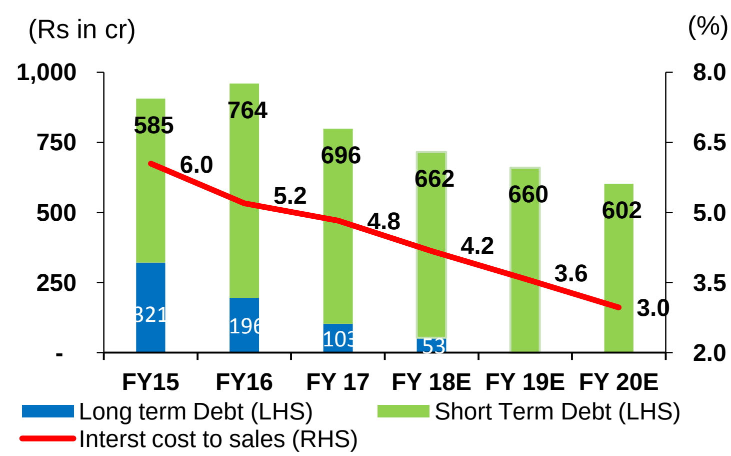
The short-term debt has reduced in FY17 to Rs 696 cr after a spike in FY16 from Rs 764 cr. The reduction in debt will boost profitability along with expansion of operating margins. The savings in the interest costs will lead to a PAT expansion by a CAGR (FY17-20E) of 23%.

PAT and PATM



Source: RDCK, Ventura Research

Debt Profile and Interest Cost to Sales



Source: RDCK, Ventura Research

❖ Strengths & Opportunities

1. RDCK's focus on innovated and integrated R&D effort has enabled the company to adapt to the changing trends and ensure top-of-the-mind recall with its customers.

2. ENA and packaging material form a major part of raw materials costs. RDCK's distillation capacity of 15.7 cr litres and the bottling capacity of 6 lakhs make it self-dependent for its ENA requirements. It has a 3-month molasses inventory stocking capacity. This insulates RDCK against price and supply volatility in ENA and molasses.

3. RDCK has 33 bottling units across India, of which 5 are owned and 28 are contract bottling units. These widespread manufacturing locations, coupled with consumers spread across the country requires it to maintain a comprehensive supply and distribution platform. The company also has manufacturing capacity of 6 lakhs bottles.

4. RDCK's Pan-India manufacturing and distribution network covers over 90% of retail outlets. It sells through over 55,000 retail and 5,000 on-premise outlets.

5. India has the youngest age profile among the BRICS nations and major global economies, with a median age of around 27.6 years. ~800mn of India's population is in the legal drinking age. Low per capita alcohol consumption in India provides room for significant growth.

6. Rising need of material comfort is the biggest driver of increasing consumption. Moreover, the movement in consumerism towards lifestyle and aspirational brands with the increase in disposable incomes will lead to an increase in premium liquor sales, leading to a better sales mix.

❖ Risks

1. The company operates in the most regulated sector in India. The liquor industry is subject to different laws and regulations, which vary from state to state. Any change in government regulations can have an adverse impact on liquor demand. Change in the legal drinking age or an alteration in the liquor trade policy will affect the prospective business of RDCK.

2. RDCK operates in an industry dependent on raw material dynamics. Any variation in estimated production of sugarcane and/or a rise in the prices of molasses or ENA will have an impact on the company's profitability.

3. Many states in India have a strict control on pricing. In some states, companies have to negotiate price increases with state appointed distributors. This leaves little room for the company to raise prices and pass on the effect of cost increases to the customers.

4. Liquor is not permitted to be advertised directly. This hampers the sales since it is a brand driven market. Launching of new brands using surrogate advertising increases the costs to the company.

5. RDCK has a portfolio of foreign currency debt as a result of which it is subject to currency and interest rate risks. The company's export portfolio (which accounts for about 10% of net revenue) acts as a natural hedge on this front.

6. The per-capita liquor consumption in India is significantly lower compared to other countries. Consequently, many international manufacturers are trying to penetrate the Indian market. Further, the ongoing structural changes allow them to introduce their premium brands in India. Such developments may have a potential impact on the market share of existing players.

❖ Liquor Industry:

There is a principle difference between International Liquor and Indian liquor. Internationally, whisky and gin are made from grain spirit, brandy from fruit spirit (primarily grapes), rum from molasses and vodka from grain/ potatoes/ sugarcane spirit or a mix of these. However, Indian liquors are predominantly molasses based. This has restricted the IMFL from entering international markets.

Globally, the consumption of lower alcoholic content drinks is rising. There is a shift from dark spirits such as whisky, dark rum and brandy towards white spirits such as vodka, white rum and gin. On the contrary, in the Asian markets the demand for dark spirits is high.

According to a report by Transparency Market Research, the global alcoholic beverages market is likely to expand at a CAGR (FY17-25E) of 6.4%, taking the market to a size of US$1,977bn by the end of 2025. The global alcoholic beverages market is estimated to be worth US$1,205bn by the end of 2017.

Manufacturers of alcoholic drinks are continuously launching new products with added flavors. The new generation drinkers are curious and ready to experiment with tastes. This has resulted in a positive demand for new tastes.

Global Liquor Brands

Source: RDCK, Ventura Research

❖ Indian Liquor Industry:

India is the third-largest liquor market in the world, with an overall retail market size of $35 billion per annum. The Indian Liquor industry comprises of Indian Made Foreign Liquor (IMFL), Indian Made Indian Liquor (IMIL), also known as country liquor, beer and wine segments. Traditionally, brown spirits which include Whisky, Brandy and Dark Rum have been the major contributor (96.6%) towards the overall IMFL sales. This is a highly regulated sector. In many parts of the country, wholesale and/or retail distribution is controlled by State Government monopolies.

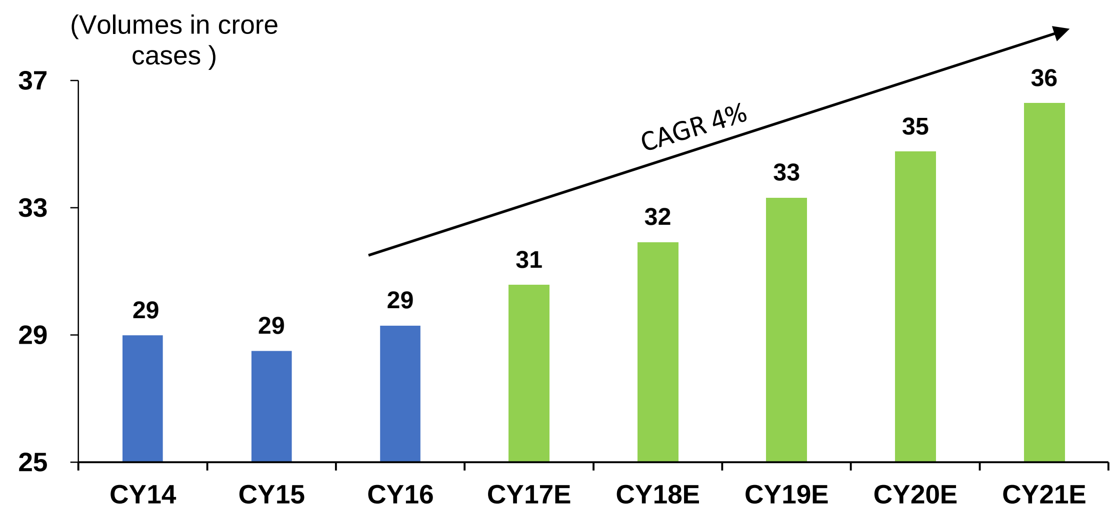
Structure of Indian Liquor Industry

Market Structure	Overview	Pricing Control	States
Free / Open market	A business may apply for a license for a fee defined by the state government subject to license availability.	Company has reasonable independence over price increases.	Arunachal, Assam, Goa, Maharashtra, Meghalaya, West Bengal, Tripura.
Auction market	The license for sale of liquor is auctioned by the Government to the highest bidder on an annual basis based on an auction process.	Company has to negotiate price increases with state appointed distributors.	Chandigarh, Haryana, Punjab.
State owned / Government corporations	The government is the wholesaler and/or distributor who purchases directly from a company. Some states also have retail shops run by the government.	Strict control on pricing by the state government.	Andhra Pradesh, Chhattisgarh, Delhi, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh.
Prohibition	States where sales of liquor is prohibited.	Not applicable.	Bihar, Gujarat.

Source: RDCK, Ventura Research

In the Industry, the trend reveals a steady shift from volume driven to value driven growth. Companies are focusing on profitable growth instead of volume growth. The companies are negotiating price hikes with the state government. Some of the state governments are actively examining a proposal for upward revision of liquor prices during FY18. Expected price increases are likely to result in an increase in EBITDA margins, thereby aligning margin structures of domestic players to those of their global counterparts.

Indian Made Foreign Liquor (IMFL) Volumes



Source: RDCK Annual Report, *Ventura Research*

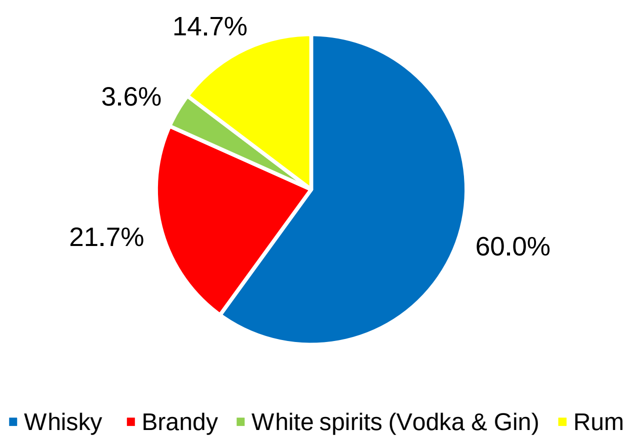
Around 66% of India's population of a billion plus people is in the legal drinking age. The per-capita consumption of alcohol in India is lower as compared to global levels. The growing trend towards a higher standard of living and the increasing disposable income has led to an increase in the consumption of liquor. During the 2017-21 period, the value of IMFL sales is expected to grow at a CAGR of 4.7%. During the same period, the IMFL industry value is expected to grow by 8.4%.

The Indian economy was temporarily impacted due to demonetisation in November 2016. Shortage of cash was reflected in the industry's performance in the second half of FY17. The economy has since rebounded.

The Indian liquor industry was specifically impacted due to a state level prohibition of sale and consumption of liquor in the state of Bihar. This was followed by the nationwide highway liquor ban, which prohibited the sale of liquor within 500m from a state or national highway effective from April 2017. All this led to a 5% fall in spirits sales in April 2017.

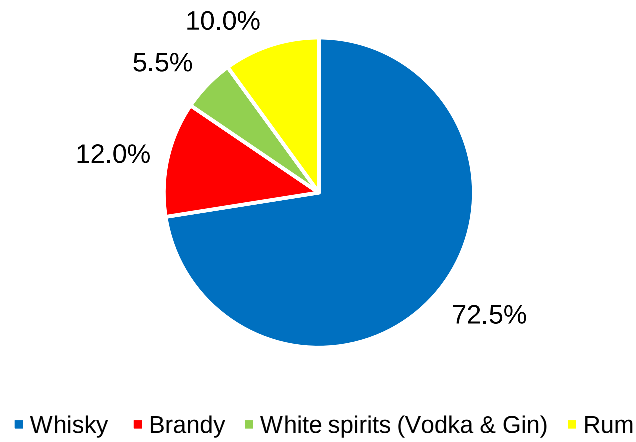
Liquor has been kept out of GST. However, raw materials inputs, such as ENA (Extra Neutral Alcohol), glass bottles and packaging materials are covered under GST. This has resulted in an increase in costs in the medium term. These factors also led to a slowdown in the industry's growth during FY17.

CY 2016 Indian Spirit Sale Composition (Volume)



Source: RDCK, Ventura Research

CY 2016 Indian Spirit Sale Composition (Value)



Source: RDCK, Ventura Research

Whisky is a major contributor to IMFL sales whereas Vodka is more popular in the global markets. Whisky comprises ~60% in volume and ~72.5% in value terms. Whisky reported 2.7% YoY growth in volumes and 7.6% YoY growth in value terms. White spirits (Vodka & Gin) volumes declined by 2.9% YoY. Brandy volumes increased by 4.7% YoY while Rum volumes increased marginally by 0.7% YoY. New product developments and variants of existing products continued to be one of the key growth strategies for both domestic and multinational spirits companies.

❖ Financial Performance

RDCK reported a decline in net revenues by 4% YoY to Rs 411 cr in Q1FY18 as it was impacted by the ban on selling liquor near national highways. The volumes declined by 5.8% YoY. However, the net revenues increased by 4.6% QoQ, driven by an increase in volumes by 8.9% QoQ, indicating the fading effect of demonetisation.

The Adjusted EBITDA (for exceptional non-cash charge/ profit on account of forex fluctuation related to ECBs) increased by 2.3% YoY to Rs 62 cr (Rs 61 cr in Q1FY17). The Adjusted EBITDAM for 1QFY18 expanded by 92bps YoY to 15.1% led by RDCK's focus on its strong premium product portfolio and cost optimization measures.

The PAT grew by 16.7% YoY to Rs 26 cr in 1QFY18 as against Rs 22 cr in 1QFY18. The Adjusted PAT remained stable YoY at Rs 26 cr while Adjusted PATM increased by 28bps YoY to 6.2%. The effective tax rate stood at 33% for this quarter.

Quarterly Financial Performance (Rs in crores)

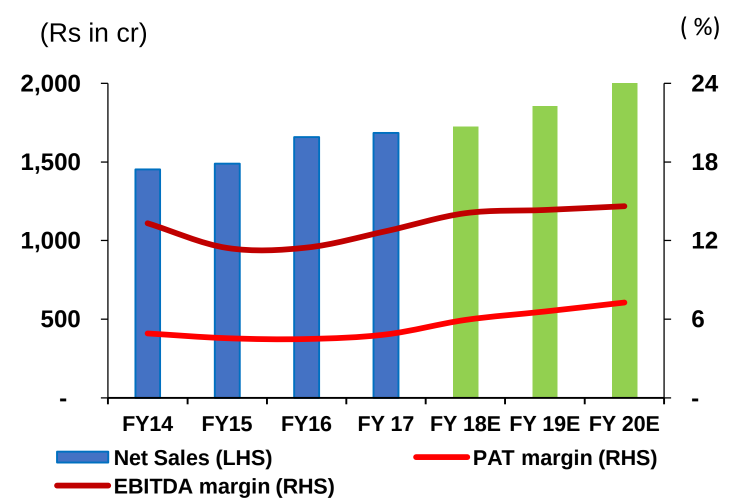
Description	1QFY18	1QFY17	FY17	FY16
Net Sales	**411**	**428**	**1,684**	**1,657**
Growth (%)	*-4.0*		*1.6*	
Total expenditure	349	371	1,472	1,470
EBITDA	**62**	**57**	**212**	**187**
Margin (%)	*15.1*	*13.3*	*12.6*	*11.3*
Depreciation	10	10	42	43
EBIT (Ex. Other Income)	52	47	170	144
Non-operating Income	5	4	20	39
EBIT	**57**	**50**	**190**	**183**
Margin (%)	13.9	11.8	11.3	11.0
Finance Cost	19	21	80	85
Exceptional Items	0.0	-3.5	-3.5	-
PBT	**38**	**33**	**113**	**98**
Margin (%)	*9.3*	*7.6*	*6.7*	*5.9*
Prov. For Tax	13	7	29	25
Adjusted PAT	**26**	**26**	**84**	**73**
Margin (%)	*6.2*	*6.0*	*5.0*	*4.4*
Adjusted EBITDA	**62**	**61**	**216**	**187**
Margin (%)	*15.1*	*14.1*	*12.8*	*11.3*
Reported PAT	**26**	**22**	**81**	**73**
Margin (%)	*6.2*	*5.1*	*4.8*	*4.4*

Source: RDCK, Ventura Research

❖ Financial Outlook

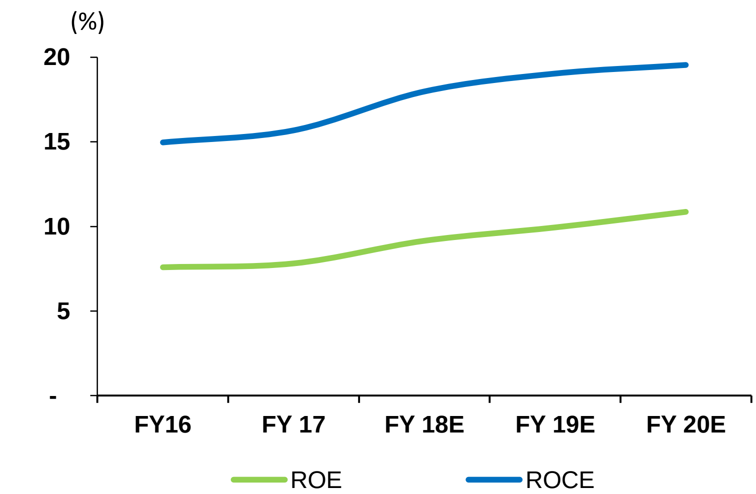
RDCK is expected to maintain a revenue growth CAGR of 6.6% for FY17-20E driven by a) A CAGR of 8.5% is expected in the volumes of the prestige & above brands segment; b) RDCK's focus on launching premium brands; c) Upward revision of liquor prices to boost realization. We expect the EBITDA margins to reach 14.6% in FY20E. The net profit is expected to grow at a CAGR of 23% for FY17-FY20E.

Growing Trend of Revenues



Source: RDCK, Ventura Research

Upward Movement in the Return Ratios

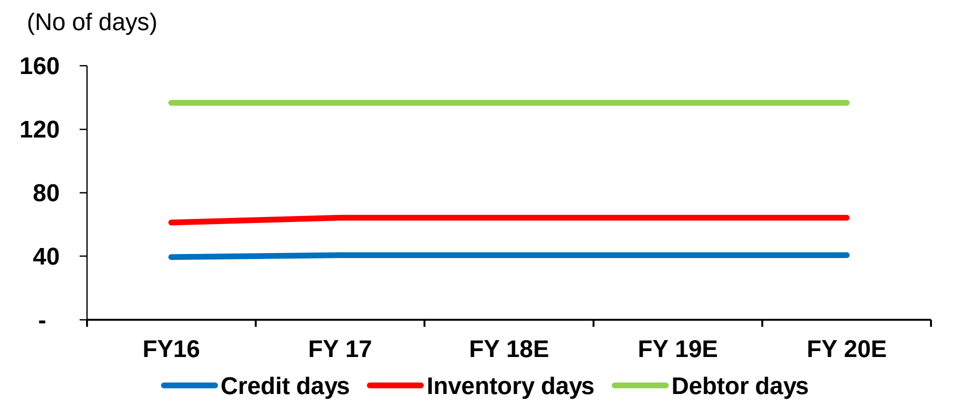


Source: RDCK, Ventura Research

ROE is expected to grow by 305 bps to 10.9% while ROCE is expected to grow by 386 bps to 19.5%, with repayment of long term debt by FY19. Interest coverage ratio is expected to double from 2.4 times to 4.7 times. Due to reduction in interest expenses on repayment of debt. Asset turnover ratio is likely to improve to 0.85 times from existing 0.75 times.

Liquor sales are highly regulated. In a few states, the sales are made to the government owned corporation, where in the government is the wholesaler. In such transactions, the debtor days are high. Since the regulations differ from state to state, the debtor days too vary. Exports are ~10% of the turnover. With RDCK seeking to expand its reach in the international markets, the debtor days bear the risk of increasing, since the credit period is 180 days in the international markets.

Stable Working Capital Going Ahead



Source: RDCK, Ventura Research

Molasses, obtained from refining sugarcane, is a seasonal product but has a long shelf life. While, liquors such as whiskey are aged to give finer tastes, RDCK's brand - Rampur Single Malt Whiskey - has been aged for ~25 years. These factors result in higher inventory. These issues are very specific to the industry that the company operates in. Hence, the inventory days are likely to remain ~60 days.

Average Credit days are likely to remain ~40 days. Molasses comprise the main raw material purchase since the company is fairly backward integrated, producing the requisite ENA.

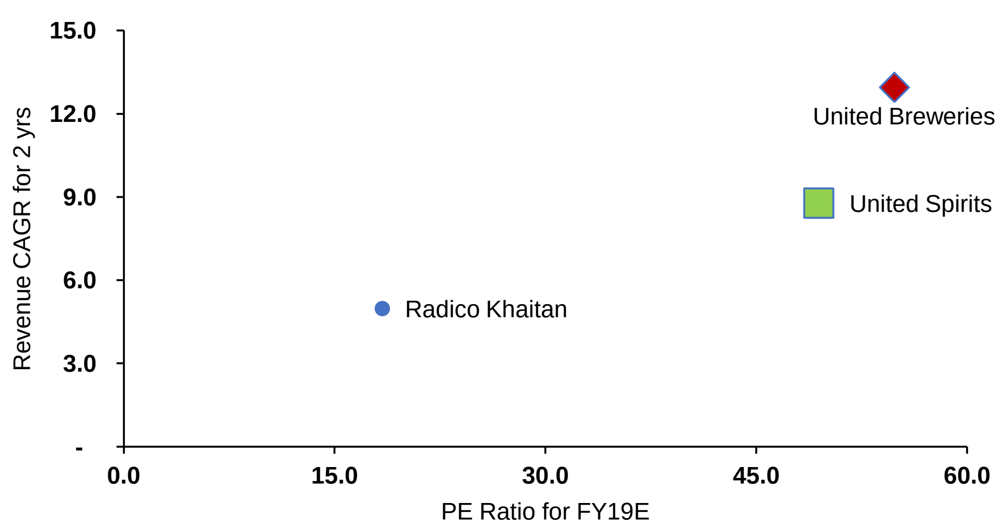
Due to the above-mentioned factors, we don't expect the working capital cycle undergo much variations.

❖ Valuation

We initiate coverage on Radico Khaitan as a BUY with a price objective of Rs 210. This represents a potential upside of 33% from the CMP of Rs 157. Currently, the stock trades at 20x, 17x and 14x its earnings estimates for FY18, FY19 and FY20 respectively. We have assigned a PE multiple of 22x on June-19E EPS of Rs 9.5 to arrive at the target price. We are optimistic about the company due to:

- Strong competitive position coupled with new launches to boost revenue.
- Improvement in the operating margins with increased focus on prestige products.
- Balance sheet to get stronger with long term debt repayment by FY19.
- Undemanding valuation compared to growth expected over FY18-20.

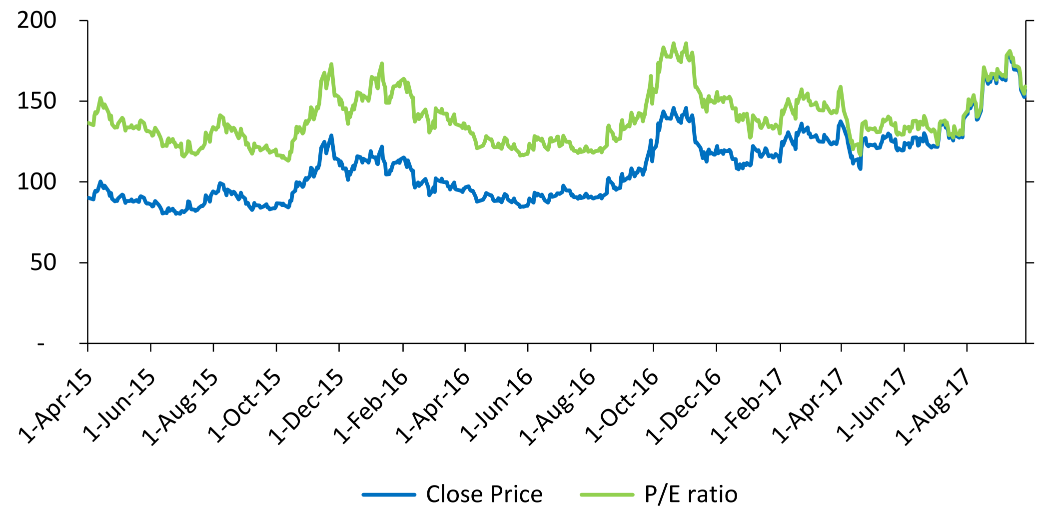
Attractive Valuation along with High Growth



Source: Ventura Research

Kyon ki bhaiya, sabse bada rupaiya.

Share Price and P/E



Source: Ventura Research

RDCK has been trading at a PE ranging between 14x and 22x from FY16 till date. Considering the PAT growth estimates of a CAGR (FY17-FY20E) of 23%, we are assigning a PE multiple of 22x for the EPS estimated for the 12 months ending June 19 (EPS at Rs. 9.5).

Peer Comparison for Financial Performance with Estimates

In Rs Cr	Sales	EBITDA	PAT	EBITDA Mgn	PAT Mgn	EPS	ROE (%)	P/E (x)	P/BV (x)	EV/ EBITDA (x)
Indian Peers										
United Spirits										
FY17	8,743	1,004	93	11.5%	1.1%	7.1	9.3	307.9	17.7	32.9
FY18E	9,169	1,139	580	12.4%	6.3%	42.5	23.8	57.9	13.7	36.5
FY19E	10,346	1,447	790	14.0%	7.6%	54.8	25.1	44.9	10.4	28.3
United Breweries										
FY17	4,729	642	230	13.6%	4.9%	8.7	8.1	88.6	8.7	30.2
FY18E	5,255	720	296	13.7%	5.6%	11.2	11.9	75.7	8.6	27.5
FY19E	6,033	861	388	14.3%	6.4%	14.7	14.0	57.7	7.6	25.9
Radico Khaitan										
FY17	1,684	212	81	12.7%	4.8%	6.1	7.8	22.7	1.5	8.8
FY18E	1,726	243	103	14.1%	5.9%	7.7	9.2	20.4	1.7	8.6
FY19E	1,856	266	122	14.3%	6.6%	9.2	9.9	17.1	1.6	7.6

Source: Ventura Research, 4 Traders

Financials and Projections

Y/E March (` crore)	FY17	FY18E	FY19E	FY20E
Profit and Loss statement				
Net Sales	**1,684**	**1,726**	**1,856**	**2,039**
% Chg.		*2.5*	*7.5*	*9.9*
Total Expenditure	1,472	1,482	1,590	1,741
% Chg.		*0.7*	*7.2*	*9.5*
EBITDA	**212**	**243**	**266**	**298**
EBITDA Margin %	*12.7*	*14.1*	*14.3*	*14.6*
Other Income	20	21	21	21
PBDIT	**232**	**264**	**287**	**319**
Depreciation	42	39	38	37
Interest	80	72	66	61
Exceptional Items	0	0	0	0
PBT	**110**	**153**	**182**	**221**
Tax Provisions	29	50	60	73
Reported PAT	**81**	**103**	**122**	**148**
Minority Interest	0	0	0	0
PAT	**81**	**103**	**122**	**148**
PAT margin (%)	4.8	5.9	6.6	7.3
Other opr Exp/ Sales (%)	*12.6*	*12.8*	*12.7*	*13.0*
Tax Rate (%)	*26.5*	*33.0*	*33.0*	*33.0*
Balance Sheet				
Share Capital	27	27	27	27
Reserves and Surplus	1,003	1,093	1,202	1,338
Minority Interest	0	0	0	0
Long Term Borrowings	103	53	0	0
Deferred Tax Liability	69	69	69	69
Other Non-Current Liabilities	9	9	9	9
Total Liabilities	**1,212**	**1,251**	**1,307**	**1,443**
Gross Block	787	813	838	864
Less: Acc. Depreciation	*84*	*123*	*161*	*199*
Net Block	704	690	677	665
Capital Work in Progress	2.2	2.2	2.2	2.2
Non-Current Investments	155	155	155	155
Net Current Assets	239	292	361	509
Long term Loans & Advances	112	112	112	112
Total Assets	**1,212**	**1,251**	**1,307**	**1,443**

Y/E March (` crore)	FY17	FY18E	FY19E	FY20E
Per Share Data (Rs)				
Adj. EPS	6.1	7.7	9.2	11.1
Cash EPS	9.2	10.7	12.1	14.0
DPS	0.8	0.8	0.8	0.8
Book Value	91.1	94.1	98.3	108.5
Capital, Liquidity, Returns Ratio				
Debt/ Equity (x)	0.8	0.6	0.5	0.4
Current Ratio (x)	1.2	1.3	1.4	1.5
ROE (%)	7.8	9.2	9.9	10.9
ROCE (%)	15.7	18.0	19.0	19.5
Dividend Yield (%)	0.6	0.5	0.5	0.5
Valuation Ratio (x)				
P/E	22.7	20.4	17.1	14.1
P/BV	1.5	1.7	1.6	1.4
EV/Sales	1.1	1.2	1.1	1.0
EV/EBITDA	8.8	8.6	7.6	6.7
Efficiency Ratio (x)				
Inventory (days)	64.2	64.2	64.2	64.2
Debtors (days)	136.7	136.7	136.7	136.7
Creditors (Days)	40.6	40.6	40.6	40.6
Cash Flow Statement				
Profit Before Tax	**110**	**153**	**182**	**221**
Depreciation	42	39	38	37
Working Capital Changes	-22	-26	-57	-81
Others	123	1	-15	-34
Operating Cash Flow	**252**	**167**	**149**	**145**
Capital Expenditure	-19	-26	-26	-26
Other Investment Activities	22	21	21	21
Cash Flow from Investing	**3**	**-4**	**-4**	**-4**
Changes in Share Capital	0	0	0	0
Changes in Borrowings	-141	-50	-53	0
Dividend and interest	-93	-85	-79	-73
Cash flow from Financing	**-234**	**-135**	**-132**	**-73**
Net Change in Cash	**21**	**27**	**12**	**67**
Opening Cash Balance	**-335**	**-314**	**-287**	**-275**
Closing Cash Balance	**-314**	**-287**	**-275**	**-208**

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