



Radico Khaitan Ltd. Q3 FY16 Quarterly Update

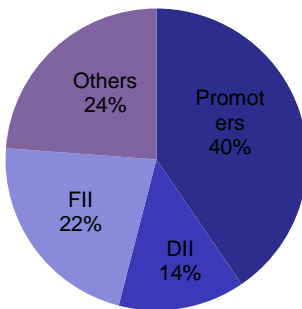
MARKET DATA

NSE TICKER	RADICO
Net worth (₹ Cr)(31 st Sep'15)	869
P/BV Ratio (FY16E) (x)	1.6
EPS (FY16E) (₹)	5.7
Market Price (₹)	106
52 Week High (20/11/2015)(₹)	131
52 Week Low (01/12/2014) (₹)	78
Market Capitalisation (₹ Cr)	~1400

AVERAGE MONTHLY VOLUME ('000)

BSE	111
NSE	519

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
GSL	5%	10%	15%
Sensex	-7%	-14%	-15%

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Topline flat but margin exceeds expectation

Radico Khaitan Ltd. (RKL) Q3FY16 quarterly earnings were in line with our estimates. Net Sales stood at ₹401crs, a decrease of 2.8% y-o-y (₹413crs.) but increased 8.4% q-o-q (₹370crs). EBITDA margin increased to 14.6% in Q3FY16 from 11.2% in Q3FY15 & from 13.6% in Q2FY15. This was largely due to with stable input prices & on-going cost optimization efforts. PAT stood at ₹25.4crs. in Q3FY16 compared to ₹21.5crs in Q3FY15, registering a growth of 18% y-o-y. PAT growth is healthy mainly due to lower interest burden. Going ahead, interest may reduce further as RKL is keen on debt reduction.

Volume growth in Prestige & above segment

Contribution from the prestige & above segment increased from 21.4% in Q3FY15 to 24.6% in Q3FY16. Volumes in the prestige & above category increased from 1.07mn cases to 1.18mn cases recording a growth of 10.7% y-o-y. Whereas, the volumes in the regular & others segment declined by 7.7% y-o-y & stood at 3.6mn cases in Q3FY16 compared to 3.9mn cases in Q3FY15. Both the segments grew by ~12% q-o-q. Moderation in top-line is due to fall in the regular & other segment which still contributes ~75% of the total IMFL sales volumes.

Raw Material prices stabilize;

Raw Material prices over the past quarter have been stable. Sugar production in the current FY16 sugar season (SS) until December 2015 was 7.99 MT compared to 7.50 MT during the same period last year. Overall, raw material prices, in particular ENA and glass bottle, have remained stable during Q3 FY2016 and are expected to remain at these levels in the near term.

Negative Sentiments for Liquor Consumption to hurt Growth in the short run

During the past year, liquor sector has been under great focus particularly due the various bans implemented on them by the various state governments. Though, these will impact the volumes in the short term, & hamper profitability but on a long term basis RKL's premiumization strategy would help chart growth. The churn in the company's product mix would set higher growth rates for RKL.

Outlook and Valuation

Premiumization plans are on track. The contribution has increased from ~21% to 25% of the total IMFL volumes. Prestige & above brands maintain a gross profit/case in the premium segment is ~5x of regular segment. EBITDA/case has also increased from ₹92 per case to ₹112 per case, recording a rise of 32%. Also, RKL's continued focus to reduce the debt burden will improve the margins & will be eligible for re-rating.

Thus, we maintain a buy rating on the stock at ₹136 per share by FY17.

Quarterly Performance:

Particulars Rs. Cr	Q3 FY16	Q3 FY15	% YoY	Q2 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	401	413	-3%	370	8%	1488	1452	3%
EBITDA	58	46	27%	50	17%	166	189	-12%
EBITDA%	15%	11%	NM	14%	NM	11%	13%	NM
Interest	20	23	-14%	21	-5%	90	85	6%
PBT	36	24	48%	26	35%	37	65	-42%
Reported PAT	25	21	21%	19	36%	68	71	-5%
Recurring EPS	1.91	1.6	19%	1.4	36%	5.1	5.4	-5%


QUARTERLY PERFORMANCE:

Particulars (Rs. Crs.)	Q3 FY16	Q3 FY15	YoY%	Q2 FY16	QoQ%	FY15	FY14	YoY%
Sales	393	400	-2%	362	9%	1,445	1,413	2%
Other Operating Income	8	13	-36%	8	1%	44	39	13%
Net Sales	401	413	-3%	370	8%	1,488	1,452	3%
Expenditure								
Raw Material	179	221	-19%	177	1%	717	653	10%
Employee Cost	29	30	-2%	29	0%	107	93	15%
Selling & Distribution Expenses	71	77	-7%	64	11%	284	286	-1%
Other Expenses	63	39	63%	49	29%	210	226	-7%
Total Expenditure	342	366	-7%	320	7%	1,318	1,258	5%
EBITDA	58	46	27%	50	17%	170	193	-12%
Depreciation	10	9		10		38	39	
Other Income	7	10	-34%	7	-3%	45	36	23%
EBIT	55	47	17%	47	17%	177	191	-7%
Interest Cost	20	23	-14%	21	-5%	90	85	6%
PBT	36	24	47%	26	35%	87	106	-18%
Tax	10	3		8	32%	19	35	
PAT	25	21	19%	19	36%	68	71	-5%
Networth	869	821	6%	869	0%	829	781	6%
FV	2	2		2	0%	2	2	
EPS	1.9	1.6	19%	1.4	36%	5	5	-5%

P&L on 100

Particulars	Q3 FY16	Q3 FY15	Q2 FY16	FY15	FY14
Sales	98	97	98	100	100
Other Operating Income	2	3	2	0	0
Net Sales	100.0	100.0	100.0	100	100
Expenditure					
Raw Material	45	54	48	49	45
Employee Cost	7	7	8	7	6
Selling & Distribution Expenses	18	19	17	19	20
Operating & Manufacturing Expenses	16	9	13	14	16
Total Expenditure	85	89	86	89	87
EBITDA	15	11	14	11	13
Depreciation	2	2	3	3	3
Other Income	2	2	2	3	3
EBIT	14	12	13	12	13
Interest Cost	5	6	6	6	6
PBT	9	6	7	6	7
Tax	3	1	2	1.3	2
PAT	6	5	5	4.2	4.4


OUTLOOK & VALUATION:-

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Thus, we maintain a buy rating on the stock at ₹136 per share by FY17.

REVISED ESTIMATES: -

Particulars (Rs. Crs.)	FY16			FY17		
	Revised	Old	Change	Revised	Old	%Change
Sales	1,537	1592	-3%	1,660	1747	-5%
EBITDA	203	195	4%	239	240	0%

Operational Parameters

EBITDA/Case	Q3 FY16	Q3 FY15	% YoY	Q2 FY16	%QoQ
Radico Khaitan Ltd.	122	92	32%	117	4%
United Spirits	94	75	25%	111	-15%

Volumes Comparison

Volume (mn. cases)	Q3 FY16	Q3 FY15	% YoY	Q2 FY16	%QoQ
Radico Khaitan Ltd.					
Prestige & above	1	1	11%	1	12%
Regular & others	4	4	-8%	3	12%
United Spirits Ltd.					
Prestige & above	11	9	16%	10	10%
Regular & others	18	22	-18%	19	-6%



Financial table

Profit & Loss

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	1,452	1,488	1,537	1,660	1,800
YoY (%)		2.5%	3.3%	8.0%	8.4%
Total expenses					
Raw Material Cost	430	477	470	490	525
Employee costs	93	107	114	120	130
Other Manu. Cost	302	292	310	335	360
EBITDA	189	166	203	239	272
YoY (%)		-12.1%	22.1%	17.8%	13.8%
EBIDTA (%)	13.0%	11.2%	13.2%	14.4%	15.1%
Depreciation	39	38	39	40	42
EBIT	150	128	164	199	230
Interest	85	90	81	78	82
Other income	41	50	30	40	40
PBT	106	87	113	162	188
Less: Taxation	35	19	38	57	61
Effective tax rate (%)	33.0%	22.4%	33.5%	35.3%	32.5%
Recurring PAT	71	68	75	105	127
YoY (%)		-5.1%	11.4%	38.8%	21.3%
PAT (%)	4.9%	4.5%	4.9%	6.3%	7.0%
Exp. items (net of tax)	0	0	0	0	0
Reported PAT	71	68	75	105	127

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	5.4	5.1	5.7	7.9	9.5
Reported EPS (Rs)	5.4	5.1	5.7	7.9	9.5
Book value (Rs)	58.0	61.6	67.0	73.9	82.3
Dividend per share (Rs)	0.8	0.8	0.9	0.9	1.0
Net Debt Equity Ratio	1.0	0.8	0.7	0.6	0.4
Payable Days	15	14	14	14	15
Debtor Days	63	54	57	57	58
Inventory Days	25	24	25	26	27
ROCE (%)	12.0%	10.6%	11.7%	14.5%	15.7%
Recurring ROE (%)	9.4%	8.4%	8.8%	11.2%	12.2%
ROA (%)	3.7%	3.3%	3.5%	4.7%	5.5%
Div Yield (%)	7.0%	12.0%	10.0%	10.0%	10.0%
Valuation Ratios					
PE (x)	19.8	20.9	18.7	13.5	11.1
Cash P/E (x)	19.8	20.9	18.7	13.5	11.1
Price/book value (x)	1.8	1.7	1.6	1.4	1.3
Market cap/sales (x)	1.3	1.7	0.9	0.8	0.8
EV/sales (x)	1.9	2.2	1.4	1.3	1.2
EV/EBITDA (x)	7.7	8.1	10.6	8.8	7.7
Earnings growth					
EBITDA (%)	2%	-12%	22%	18%	14%
EPS (%)	-8%	-5%	11%	39%	21%
PAT (%)	-8%	-5%	11%	39%	21%

Balance Sheet

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Equity capital	27	27	27	27	27
Reserves	754	802	865	956	1,068
Net worth	781	829	892	982	1094
Total borrowings	904	849	743	687	684
Minority Interest	0	0	0	0	0
Non Curr Liabilities	76	78	81	87	101
Curr. Liabilities	255	331	453	480	526
Total liab.	2,016	2,087	2,169	2,236	2,405
Net block	579	574	560	545	528
Investments	58	48	50	50	50
Others	139	146	189	183	178
Current assets					
Inventories	210	213	228	260	289
Debtors	523	478	528	565	629
Cash	15	10	33	43	68
Other Curr. assets	491	619	581	590	664
Total assets	2,016	2,087	2,169	2,225	2,406

Cash Flow

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Pre Tax Profit	106	87	113	162	188
Depn and w/o	39	38	39	40	42
Change in working cap	(229)	(9)	95	(52)	(120)
Taxes Paid	(24)	(18)	(36)	(51)	(48)
Others	158	83	38	84	87
Op. Cash flow	50	182	249	183	150
Capex (Net)	(83)	(33)	(25)	(25)	(25)
Investments	0	10	(2)	0	0
Inv. Cash flow	(83)	(23)	(27)	-25	-25
Dividend	(12)	(13)	(13)	(14)	(15)
Fresh Equity	(0)	73	0	0	0
Others	(6)	(80)	0	0	0
Debt	135	(55)	(106)	(57)	(3)
Interest	(85)	(90)	(81)	(78)	(82)
Fin. Cash flow	32	(164)	(199)	-148	-100
Net change in cash	(0.7)	(5.0)	22.9	10	25
Opening cash	16.0	15.3	10.3	33.2	43.4
Closing cash	15.3	10.3	33.2	43.4	68.3



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