



## Radico Khaitan Ltd. Q1 FY17 Quarterly Update

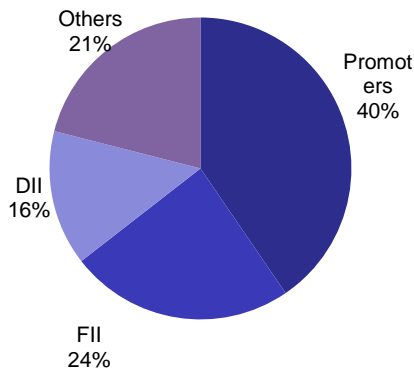
### MARKET DATA

NSE TICKER	RADICO
Net worth (₹ Cr)(31 <sup>st</sup> Mar'16)	904
P/BV Ratio (FY17E) (x)	1.2
EPS (FY17E) (₹)	10
Market Price (₹)	96
52 Week High (20/11/2015)(₹)	131
52 Week Low (22/09/2015) (₹)	81
Market Capitalisation (₹ Cr)	1281

### AVERAGE MONTHLY VOLUME ('000)

BSE	57
NSE	515

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
RKL	12.2%	-3%	7.6%
Sensex	10.8%	19.5%	8.6%

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### Premiumization drives margin surprise

Radico Khaitan Ltd. (RKL) Q4FY16 quarterly earnings were above our estimates. Net Sales stood at ₹430crs, an increase of 3.1% y-o-y (₹417crs.). The prestige and above category showed a robust 11% volume growth y-o-y with a 42% q-o-q increase. EBITDA margins jumped to 13.1% in Q1FY17 from 11.1% in Q4FY16. This was driven by a faster than expected premiumization shift with a focus on cost efficiencies. PAT increased by 25% y-o-y to ₹21.5crs for Q1FY17 compared to ₹17.3crs in Q1FY16 as a result of higher EBITDA with no increase in interest expenses.

### Volume growth in Prestige & above segment

Contribution from the prestige & above segment increased from 25.2% in Q1FY16 to 26.9% in Q1FY17. Volumes in the prestige & above category increased from 0.94mn cases to 1.34mn cases recording a growth of 42% q-o-q. However, volumes in the regular & others segment grew by a modest 9% q-o-q & stood at 3.6mn cases for Q1FY17 as compared to 3.3mn cases for Q4FY16. Premiumization plans seem to be on track, which can be seen from the increased revenue contribution from prestige & above category to 26.9% of total IMFL volumes. As prestige & above brands maintain a gross profit/case of ~4.0x the regular segment one can see the EBITDA/Case jump sharply in Q1FY17 to 113.2 per case from 90.7 per case in Q4FY16 registering a sequential increase of 24.8%. These robust growth numbers were delivered despite the Bihar ban which would imply higher like for like growth numbers by ~150 bps.

### Incremental price hikes could cause incremental margin upside opportunity

The liquor industry has taken a price hike in the state of Karnataka, the impact of which will start flowing from Q2FY17. There are further price hikes expected from states such as Punjab, AP & Telangana, clarity on which should come in by Q3FY17. These price hikes are after an interval of almost 2 years and would lead to an EBITDA increase of ~200+bps.

### Key regulatory developments;

Liquor would be the only large taxable revenue source for state governments apart from petroleum products post implementation of GST. Thus any budget deficits would be met via increases in taxes on liquor. This significantly increases the risk of increased taxation and could result in margin pressure in the long term.

There have also been media reports of the Union Oil Minister suggesting that India might move away from a fixed price for ethanol used for blending in petrol to a 'market dynamic' pricing system where rates would move in tandem with the international trend. The current price of ethanol at ₹48.5 per litre is ~20% higher than the cost of producing petrol. A move to link ethanol prices to market prices could result in a sharp drop in alcohol prices which account for ~50% of the total RM costs for all liquor companies. Any updates on the same could result in a huge positive surprise for our estimates.

### Valuation

We raise our estimates & assign a P/E of 15.0x on FY18 EPS to arrive at our target price of ₹149 per share by FY17 which implies a ~55% upside from the current market price. We maintain a 'BUY' recommendation on the stock.

### Quarterly Performance:

Particulars (₹ Crs.)	Q1 FY17	Q1 FY16	% YoY	Q4 FY16	%QoQ	FY16	FY15	% YoY
Net Sales	430	417	3%	378	14%	1543	1489	4%
EBITDA	56	46	22%	39	45%	195	171	14%
EBITDA%	13.1	11.1	200bps	10.3	280bps	12.6	11.4	117bps
Interest	21	21	1%	23	-7%	85	90	-6%
PBT	28	24	18%	20	39%	108	87	24%
Reported PAT	22	17	25%	14.8	45%	76.9	67.6	14%
Recurring EPS	1.6	1.3	25%	1.1	45%	5.8	5.1	14%


**QUARTERLY PERFORMANCE:**

Particulars (₹ Crs.)	Q1 FY17	Q1 FY16	% YoY	Q4 FY16	%QoQ	FY16	FY15	% YoY
Sales	422	408	3%	367	15%	1,507	1,445	4%
Other Operating Income	8	9	-6%	10	-20%	36	44	-19%
Net Sales	430	417	3%	378	14%	1,543	1,489	4%
<b>Expenditure</b>								
Raw Material	229	226	1%	183	25%	718	717	0%
Employee Cost	37	31	20%	34	10%	119	107	11%
Selling & Distribution Expenses	42	41	2%	65	-35%	273	284	-4%
Other Expenses	66	73	-9%	57	16%	239	210	14%
Total Expenditure	374	371	1%	339	10%	1,348	1,318	2%
EBITDA	56	46	22%	39	45%	195	171	14%
Depreciation	10	11		10	1%	40	38	5%
Other Income	4	10	-61%	15	-74%	38	45	-15%
EBIT	50	45	10%	43	15%	192	177	9%
Interest Cost	21	21	1%	23	-7%	85	90	-6%
PBT	28	24	18%	20	39%	108	87	24%
Tax	7	7		6	23%	31	20	
PAT	22	17	25%	15	45%	77	68	14%
Networth	904	829	9%	904	0%	904	829	9%
FV	2	2		2	0%	2	2	0%
EPS	1.6	1.3	25%	1.1	45%	5.8	5.1	14%

**P&L on 100**

Particulars	Q1 FY17	Q1 FY16	Q4 FY16	FY16	FY15
Sales	98.1	97.9	97.2	97.7	97.0
Other Operating Income	1.9	2.1	2.8	2.3	3.0
Net Sales	100.0	100.0	100.0	100.0	100.0
<b>Expenditure</b>					
Raw Material	53.1	54.2	48.5	46.5	48.2
Employee Cost	8.6	7.4	8.9	7.7	7.2
Selling & Distribution Expenses	9.8	9.9	17.2	17.7	19.1
Operating & Manufacturing Expenses	15.4	17.5	15.1	15.5	14.1
Total Expenditure	86.9	88.9	89.7	87.4	88.5
EBITDA	13.1	11.1	10.3	12.6	11.5
Depreciation	2.4	2.6	2.7	2.6	2.6
Other Income	0.9	2.3	3.9	2.5	3.0
EBIT	11.6	10.9	11.5	12.5	11.9
Interest Cost	5.0	5.1	6.1	5.5	6.0
PBT	6.6	5.8	5.4	7.0	5.9
Tax	1.6	1.6	1.5	2.0	1.3
PAT	5.0	4.1	3.9	5.0	4.5



**OUTLOOK & VALUATION:-**

Premiumization plans are on track which is seen from the increased contribution from prestige & above category to 26.9% of the total IMFL volumes. EBITDA/case has also increased sharply from ₹91 to ₹113 per case, recording a rise of ~25%.

We raise our estimates, assign a P/E of 15x on FY18 EPS and revise our target price to ₹149 per share by FY17. We continue to recommend a 'BUY' rating on the stock.

**REVISED ESTIMATES: -**

Particulars (₹ Crs.)	FY17			FY18		
	Revised	Old	Change	Revised	Old	%Change
Sales	1,679	1,669	1%	1,821	1,810	1%
EBITDA	246	226	9%	275	258	7%
PAT	111	97	14%	132	121	10%

**Reason for Revision**

In light of the price hikes allowed & expected from various state governments we raise our revenue estimates marginally while we increase our EBITDA & PAT estimates driven by the faster than expected premiumization carried out by the company. The EBITDA/case has shown a strong upward trajectory which should continue as the price hikes flow down over the rest of FY17.

**Operational Parameters**

Particular	Q1 FY17	Q1 FY16	YoY%	Q4 FY16	QoQ%	FY16	FY15	YoY%
EBITDA/CASE	113.2	96.3	17%	90.7	24.8%	107.0	87.4	22%

The company has shown a sharp jump in EBITDA/Case from ₹91 to ₹113 per case. This jump is driven by increased volume share of the Prestige & above brands, which maintain a gross profit/case of ~4x the regular segment.

**Volumes Breakup**

Volume (mn. cases)	Q1 FY17	Q1 FY16	YoY%	Q4 FY16	QoQ%	FY16	FY15	YoY%
<b>Category</b>								
Prestige & above	1.34	1.21	11%	0.94	42%	4	4	9%
Regular & others	3.64	3.59	1%	3.34	9%	14	15	-11%
<b>Total</b>	<b>5.0</b>	<b>4.8</b>	<b>4%</b>	<b>4.3</b>	<b>16%</b>	<b>18.2</b>	<b>19.5</b>	<b>-7%</b>

The regular segment continued to show muted volume growth growing just 1% y-o-y while the Prestige & above category maintained a robust 11% growth y-o-y.

**Prestige & Above Contribution as % of Total Volume**

Segment	Q1 FY17	Q1 FY16	Q4 FY16	FY16	FY15
Prestige & above	26.9%	25.2%	22%	24.2%	20.7%



## Financial table

Profit & Loss					
Particulars (₹ Crs.)	FY14	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>1,452</b>	<b>1,488</b>	<b>1,543</b>	<b>1,679</b>	<b>1,821</b>
<b>YoY (%)</b>		<b>2.5%</b>	<b>3.7%</b>	<b>8.8%</b>	<b>8.4%</b>
<b>Total expenses</b>					
Raw Material Cost	430	479	444	500	537
Employee costs	93	120	131	140	150
Other Manu. Cost	302	293	325	334	362
<b>EBITDA</b>	<b>189</b>	<b>166</b>	<b>187</b>	<b>246</b>	<b>275</b>
<b>YoY (%)</b>		<b>-12.1%</b>	<b>12.8%</b>	<b>31.5%</b>	<b>11.6%</b>
<b>EBIDTA (%)</b>	<b>13.0%</b>	<b>11.2%</b>	<b>12.1%</b>	<b>14.7%</b>	<b>15.1%</b>
Depreciation	39	38	40	42	43
<b>EBIT</b>	<b>150</b>	<b>128</b>	<b>147</b>	<b>205</b>	<b>232</b>
Interest	85	90	85	78	76
Other income	41	50	46	35	35
<b>PBT</b>	<b>106</b>	<b>87</b>	<b>108</b>	<b>162</b>	<b>191</b>
Less: Taxation	35	19	31	51	59
Effective tax rate (%)	33.0%	22.4%	28.6%	31.5%	31.0%
<b>Recurring PAT</b>	<b>71</b>	<b>68</b>	<b>77</b>	<b>111</b>	<b>132</b>
<b>YoY (%)</b>		<b>-5.1%</b>	<b>13.7%</b>	<b>43.9%</b>	<b>19.2%</b>
<b>PAT (%)</b>	<b>4.9%</b>	<b>4.5%</b>	<b>5.0%</b>	<b>6.6%</b>	<b>7.2%</b>
Exp. items (net of tax)	0	0	0	0	0
<b>Reported PAT</b>	<b>71</b>	<b>68</b>	<b>77</b>	<b>111</b>	<b>132</b>

Key Ratios					
Particulars	FY14	FY15	FY16	FY17E	FY18E
Recurring EPS (₹)	5.4	5.1	5.8	8.3	9.9
Reported EPS (₹)	5.4	5.1	5.8	8.3	9.9
Book value (₹)	58.0	61.6	68.0	75.4	84.4
Dividend per share (₹)	0.8	0.8	0.8	0.8	0.8
Net Debt Equity Ratio	1.0	0.8	0.7	0.5	0.4
Payable Days	15	14	15	16	16
Debtor Days	63	54	56	53	53
Inventory Days	25	24	24	23	23
ROCE (%)	12.0%	10.6%	11.2%	14.0%	15.9%
Recurring ROE (%)	9.4%	8.4%	8.9%	11.6%	12.4%
ROA (%)	3.7%	3.3%	3.6%	5.2%	6.0%
Div Yield (%)	7.0%	12.0%	10.0%	10.0%	10.0%
<b>Valuation Ratios</b>					
PE (x)	16.8	17.7	15.6	10.8	9.1
Cash P/E (x)	16.8	17.7	15.6	10.8	9.1
Price/book value (x)	1.6	1.5	1.3	1.2	1.1
Market cap/sales (x)	1.3	1.7	0.8	0.7	0.7
EV/sales (x)	1.9	2.2	1.3	1.1	1.0
EV/EBITDA (x)	7.7	8.1	10.9	7.5	6.5
<b>Earnings growth</b>					
EBITDA (%)	2%	-12%	13%	31%	12%
EPS (%)	-8%	-5%	14%	44%	19%
PAT (%)	-8%	-5%	14%	44%	19%

Balance Sheet					
Particulars (₹ Crs.)	FY14	FY15	FY16	FY17E	FY18E
Equity capital	27	27	27	27	27
Reserves	754	802	877	976	1,096
<b>Net worth</b>	<b>781</b>	<b>829</b>	<b>904</b>	<b>1003</b>	<b>1122</b>
Total borrowings	904	849	818	647	594
Minority Interest	0	0	0	0	0
Non Curr Liabilities	76	78	83	84	89
Curr. Liabilities	255	330	340	394	428
<b>Total liab.</b>	<b>2,016</b>	<b>2,087</b>	<b>2,145</b>	<b>2,128</b>	<b>2,234</b>
Net block	579	574	579	562	545
Investments	58	48	48	48	48
Others	139	146	226	185	180
<b>Current assets</b>					
Inventories	210	213	233	233	252
Debtors	523	478	549	531	576
Cash	15	10	11	2	22
Other Curr. assets	491	618	499	567	611
<b>Total assets</b>	<b>2,016</b>	<b>2,087</b>	<b>2,145</b>	<b>2,225</b>	<b>2,234</b>

Cash Flow					
Particulars (₹ Crs.)	FY14	FY15	FY16	FY17E	FY18E
Pre Tax Profit	106	87	108	162	191
Depn and w/o	39	38	40	42	43
Change in working cap	-229	-9	38	4	-75
Taxes Paid	-24	-18	-28	-49	-54
Others	158	83	7	118	81
<b>Op. Cash flow</b>	<b>50</b>	<b>182</b>	<b>165</b>	<b>276</b>	<b>185</b>
Capex (Net)	-83	-33	-46	-25	-25
Investments	0	10	0	-0	0
<b>Inv. Cash flow</b>	<b>-83</b>	<b>-23</b>	<b>-46</b>	<b>-25</b>	<b>-25</b>
Dividend	-12	-13	-13	-12	-12
Fresh Equity	-0	73	73	0	0
Others	-6	-80	-62	0	0
Debt	135	-55	2	-204	-53
Interest	-85	-90	-85	-78	-76
<b>Fin. Cash flow</b>	<b>32</b>	<b>-164</b>	<b>-85</b>	<b>-294</b>	<b>-140</b>
Net change in cash	(0.7)	(5.0)	34.2	-43	20
<b>Opening cash</b>	<b>16.0</b>	<b>15.3</b>	<b>10.3</b>	<b>11.4</b>	<b>1.5</b>
<b>Closing cash</b>	<b>15.3</b>	<b>10.3</b>	<b>11.4</b>	<b>1.5</b>	<b>21.6</b>



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