



## Radico Khaitan Ltd. Q4 FY16 Quarterly Update

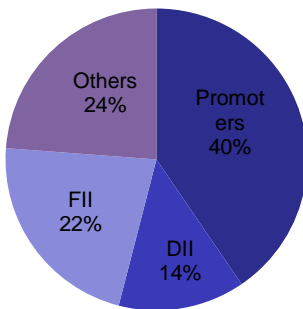
### MARKET DATA

NSE TICKER	RADICO
Net worth (₹ Cr)(31 <sup>st</sup> Mar'16)	904
P/BV Ratio (FY17E) (x)	1.2
EPS (FY17E) (₹)	7.3
Market Price (₹)	90
52 Week High (20/11/2015)(₹)	131
52 Week Low (01/12/2014) (₹)	78
Market Capitalisation (₹ Cr)	~1200

### AVERAGE MONTHLY VOLUME ('000)

BSE	49
NSE	249

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
RKL	-13%	-15%	5%
Sensex	7%	-2%	-5%

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### Margins flat; Topline grows in line with expectations

Radico Khaitan Ltd. (RKL) Q4FY16 quarterly earnings were slightly below our estimates. Net Sales stood at ₹378crs, an increase of 10% y-o-y (₹343crs.). The prestige and above category showed 7% volume growth y-o-y but declined 6% q-o-q. EBITDA margin improved marginally to 10.3% in Q4FY16 from 9.7% in Q4FY15. This was largely due to lower SG&A, other expenses. However, PAT remained flat at ₹14.8crs. for Q4FY16 compared to ₹14.9crs in Q4FY15 as a result of higher interest expenses & tax rates.

### Volume growth in Prestige & above segment

Contribution from the prestige & above segment increased from 19.5% in Q4FY15 to 22% in Q4FY16. Volumes in the prestige & above category increased from 0.88mn cases to 0.94mn cases recording a growth of 7% y-o-y. However, volumes in the regular & others segment declined by 8% y-o-y & stood at 3.3mn cases for Q4FY16 as compared to 3.6mn cases for Q4FY15. Volumes for both the segments declined by 11% q-o-q. The focus on premiumization also led to a drop in volumes (Q3) in the regular category for players like USL. Premiumization plans seem to be on track, which can be seen from the increased revenue contribution from prestige & above category to 22% of total IMFL volumes. Prestige & above brands maintain a gross profit/case of ~4.0x the regular segment. EBITDA/case has increased from ₹74 per case to ₹91 per case, recording a rise of 23%.

### Raw Material prices expected to show some volatility in near term;

Molasses prices, a key input, have risen over the past quarter. Sugar production in the current FY16 sugar season (SS) until April'16 was 24.6 MT compared to 27.6 MT during the same period last year showing a decline of 11%. This would result in Molasses prices continuing to remain firm. Overall, prices for raw materials such as grains & glass bottles have remained stable during Q4 FY2016 and are expected to remain at these levels for the foreseeable future.

### Regulatory risk in States;

In April'16, the state of Bihar initiated a complete ban on liquor sales. Despite Bihar contributing only 1-2% to the overall IMFL volume sales in India, it may have a contagion effect on other states wishing to go dry, such as Kerala & Tamil Nadu. Any ban in these southern states which have a higher per capita consumption of IMFL alcohol will adversely affect the industry.

On the positive side, the government of Uttar Pradesh has reduced the excise duty on IMFL by 20-25% resulting in a consequent decline in retail prices. This is expected to result in an increase in IMFL volumes by 5% in the state from FY17. Also, the Karnataka state government has allowed a price increase of ₹35 per case, effective from July 1, 2016. Karnataka contributes 15% of industry IMFL volumes which results in an EBITDA increase of ~₹7-8crs for the company.

### Valuation

We lower our estimates & assign a P/E of 15.0x on FY18EPS & revise our target price downwards to ₹116 per share by FY17 which implies a ~29% upside from the current market price. We maintain a buy recommendation on the stock.

### Quarterly Performance:

Particulars ₹ Cr	Q4 FY16	Q4 FY15	% YoY	Q3 FY16	%QoQ	FY16	FY15	% YoY
Net Sales	378	343	10%	401	-6%	1543	1488	4%
EBITDA	39	33	17%	58	-33%	195	170	14%
EBITDA%	10%	10%	NM	15%	NM	13%	11%	NM
Interest	23	22	6%	20	17%	85	90	-6%
PBT	20	18	12%	36	-43%	108	87	24%
Reported PAT	15	15	-1%	25	-42%	77	68	14%
Recurring EPS	1.1	1.1	-2%	1.9	-42%	5.8	5.1	14%


**QUARTERLY PERFORMANCE:**

Particulars (₹ Crs.)	Q4 FY16	Q4 FY15	YoY%	Q3 FY16	QoQ%	FY16	FY15	YoY%
Sales	367	333	10%	393	-6%	1,508	1,445	4%
Other Operating Income	11	11	-3%	8	26%	36	44	-19%
<b>Net Sales</b>	<b>378</b>	<b>343</b>	<b>10%</b>	<b>401</b>	<b>-6%</b>	<b>1,543</b>	<b>1,488</b>	<b>4%</b>
<b>Expenditure</b>								
Raw Material	183	155	18%	179	3%	718	717	0%
Employee Cost	34	28	22%	29	16%	119	107	10%
Selling & Distribution Expenses	65	67	-3%	71	-9%	273	284	-4%
Other Expenses	57	60	-5%	63	-10%	239	210	14%
<b>Total Expenditure</b>	<b>339</b>	<b>310</b>	<b>9%</b>	<b>342</b>	<b>-1%</b>	<b>1,348</b>	<b>1,318</b>	<b>2%</b>
<b>EBITDA</b>	<b>39</b>	<b>33</b>	<b>17%</b>	<b>58</b>	<b>-34%</b>	<b>195</b>	<b>170</b>	<b>14%</b>
Depreciation	10	8		10		40	38	
Other Income	15	15	-1%	7	117%	38	45	-15%
<b>EBIT</b>	<b>43</b>	<b>40</b>	<b>9%</b>	<b>55</b>	<b>-22%</b>	<b>193</b>	<b>177</b>	<b>9%</b>
Interest Cost	23	22	6%	20	17%	85	90	-6%
<b>PBT</b>	<b>20</b>	<b>18</b>	<b>12%</b>	<b>36</b>	<b>-43%</b>	<b>108</b>	<b>87</b>	<b>24%</b>
Tax	6	3	100%	10	-46%	31	19	
<b>PAT</b>	<b>15</b>	<b>15</b>	<b>-1%</b>	<b>25</b>	<b>-42%</b>	<b>77</b>	<b>68</b>	<b>14%</b>
<b>Networth</b>	<b>905</b>	<b>829</b>	<b>9%</b>	<b>869</b>	<b>4%</b>	<b>905</b>	<b>829</b>	<b>9%</b>
FV	2	2		2	0%	2	2	0%
EPS	1.1	1.1	-2%	1.9	-42%	6	5	14%

**P&L on 100**

Particulars	Q4 FY16	Q4 FY15	Q3 FY16	FY16	FY15
Sales	97	97	98	98	100
Other Operating Income	3	3	2	2	0
<b>Net Sales</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>
<b>Expenditure</b>					
Raw Material	49	45	45	47	32
Employee Cost	9	8	7	8	7
Selling & Distribution Expenses	17	20	18	18	19
Operating & Manufacturing Expenses	15	18	16	15.5	31
<b>Total Expenditure</b>	<b>90</b>	<b>90</b>	<b>85</b>	<b>87</b>	<b>89</b>
<b>EBITDA</b>	<b>10</b>	<b>10</b>	<b>15</b>	<b>13</b>	<b>11.2</b>
Depreciation	3	2	3	3	3
Other Income	4	4	2	2.5	3
<b>EBIT</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>13</b>	<b>12</b>
Interest Cost	6	6	5	5.5	6.1
<b>PBT</b>	<b>5</b>	<b>5</b>	<b>9</b>	<b>7</b>	<b>6</b>
Tax	2	1	3	2.0	1
<b>PAT</b>	<b>3.9</b>	<b>4.3</b>	<b>6.3</b>	<b>5.0</b>	<b>4.5</b>

**OUTLOOK & VALUATION:-**

Premiumization plans are on track which is seen from the increased contribution from prestige & above category from ~19% to 22% of the total IMFL volumes. Prestige & above brands maintain a gross profit/case in the premium segment is ~4x of regular segment. EBITDA/case has also increased from ₹74 per case to ₹91 per case, recording a rise of 23%.

We lower our estimates & assign a P/E of 15x on FY18EPS & revise our target price to ₹116 per share by FY17 and thus recommend a buy rating on the stock

**REVISED ESTIMATES: -**

Particulars (₹ Crs.)	FY17			FY18		
	Revised	Old	Change	Revised	Old	%Change
Sales	1,669	1660	0.5%	1,810	1800	0.5%
EBITDA	226	239	-5%	258	272	-5%

**Reason for Revision**

**Sales**-Excise duty Waiver & Karnataka Price Hike will lead to higher sales. We increase our assumption on the cost side.

**Operational Parameters**

Particular	Q4 FY16	Q4 FY15	YoY%	Q3 FY16	QoQ%	FY16	FY15	YoY%
EBITDA/CASE	91	74	23%	121.85	-26%	107	87	22%

**Volumes Breakup**

Volume (mn. cases)	Q4 FY16	Q4 FY15	YoY%	Q3 FY16	QoQ%	FY16	FY15	YoY%
<b>Category</b>								
Prestige & above	1	1	7%	1	-21%	4	4	9%
Regular & others	3	4	-8%	4	-7%	14	15	-11%
<b>Total</b>	<b>4</b>	<b>5</b>	<b>-5%</b>	<b>5</b>	<b>-11%</b>	<b>18</b>	<b>19</b>	<b>-7%</b>

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

Segment	Q4 FY16	Q4 FY15	Q3 FY16	FY16	FY15
Prestige & above	22%	19.5%	25%	24.2%	20.7%



## Financial table

Profit & Loss					
Particulars (₹ Crs.)	FY14	FY15	FY16E	FY17E	FY18E
<b>Net sales</b>	<b>1,452</b>	<b>1,488</b>	<b>1,543</b>	<b>1,669</b>	<b>1,810</b>
<b>YoY (%)</b>		<b>2.5%</b>	<b>3.7%</b>	<b>8.2%</b>	<b>8.4%</b>
<b>Total expenses</b>					
Raw Material Cost	430	477	481	524	561
Employee costs	93	107	119	126	134
Other Manu. Cost	302	292	311	334	359
<b>EBITDA</b>	<b>189</b>	<b>166</b>	<b>195</b>	<b>226</b>	<b>258</b>
<b>YoY (%)</b>		<b>(12.1%)</b>	<b>17.2%</b>	<b>16.1%</b>	<b>14.2%</b>
<b>EBIDTA (%)</b>	<b>13.0%</b>	<b>11.2%</b>	<b>12.6%</b>	<b>13.6%</b>	<b>14.3%</b>
Depreciation	39	38	40	41	42
<b>EBIT</b>	<b>150</b>	<b>128</b>	<b>154</b>	<b>185</b>	<b>216</b>
Interest	85	90	85	78	76
Other income	41	50	38	35	35
<b>PBT</b>	<b>106</b>	<b>87</b>	<b>108</b>	<b>142</b>	<b>175</b>
Less: Taxation	35	19	31	45	54
Effective tax rate (%)	33.0%	22.4%	28.5%	31.5%	31.0%
<b>Recurring PAT</b>	<b>71</b>	<b>68</b>	<b>77</b>	<b>97</b>	<b>121</b>
<b>YoY (%)</b>		<b>-5.1%</b>	<b>14.0%</b>	<b>26.3%</b>	<b>24.3%</b>
<b>PAT (%)</b>	<b>4.9%</b>	<b>4.5%</b>	<b>5.0%</b>	<b>5.8%</b>	<b>6.7%</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>97</b>	<b>121</b>

Key Ratios					
Particulars	FY14	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	5.4	5.1	5.8	7.3	9.1
Reported EPS (Rs)	5.4	5.1	5.8	7.3	9.1
Book value (Rs)	58.0	61.6	68.0	74.4	82.6
Dividend per share (Rs)	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%	11.5%	13.3%	15.1%
Recurring ROE (%)	9.4%	8.4%	8.9%	10.3%	11.6%
ROA (%)	3.7%	3.3%	3.6%	4.6%	5.6%
Div Yield (%)	7.0%	12.0%	10.0%	10.0%	10.0%
Valuation Ratios					
PE (x)	16.8	17.7	15.5	12.3	9.9
Cash P/E (x)	16.8	17.7	15.5	12.3	9.9
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	10.1	8.2	6.9
Earnings growth					
EBITDA (%)	2%	-12%	17%	16%	14%
EPS (%)	-8%	-5%	14%	26%	24%
PAT (%)	-8%	-5%	14%	26%	24%

Balance Sheet					
Particulars (₹ Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Equity capital	27	27	27	27	27
Reserves	754	802	878	963	1,072
<b>Net worth</b>	<b>781</b>	<b>829</b>	<b>905</b>	<b>990</b>	<b>1099</b>
Total borrowings	904	849	769	647	594
Minority Interest	0	0	0	0	0
Non Curr Liabilities	76	78	83	84	89
Curr. Liabilities	255	331	389	392	425
<b>Total liab.</b>	<b>2,016</b>	<b>2,087</b>	<b>2,146</b>	<b>2,113</b>	<b>2,208</b>
Net block	579	574	579	543	527
Investments	58	48	48	48	48
Others	139	146	226	184	179
Current assets					
Inventories	210	213	233	231	251
Debtors	523	478	549	528	573
Cash	15	10	11	15	23
Other Curr. assets	491	619	499	564	607
<b>Total assets</b>	<b>2,016</b>	<b>2,087</b>	<b>2,145</b>	<b>2,225</b>	<b>2,208</b>

Cash Flow					
Particulars (₹ Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Pre Tax Profit	106	87	108	142	175
Depn and w/o	39	38	40	41	42
Change in working cap	(229)	(9)	87	(40)	(74)
Taxes Paid	(24)	(18)	(28)	(42)	(50)
Others	158	83	6	119	81
<b>Op. Cash flow</b>	<b>50</b>	<b>182</b>	<b>214</b>	<b>220</b>	<b>174</b>
Capex (Net)	(83)	(33)	(46)	(5)	(25)
Investments	0	10	(0)	0	0
<b>Inv. Cash flow</b>	<b>(83)</b>	<b>(23)</b>	<b>(46)</b>	<b>-5</b>	<b>-25</b>
Dividend	(12)	(13)	(12)	(12)	(12)
Fresh Equity	(0)	73	(0)	0	0
Others	(6)	(80)	10	0	(0)
Debt	135	(55)	(80)	(122)	(53)
Interest	(85)	(90)	(85)	(78)	(76)
<b>Fin. Cash flow</b>	<b>32</b>	<b>(164)</b>	<b>(167)</b>	<b>-212</b>	<b>-140</b>
Net change in cash	(0.7)	(5.0)	1.1	3	9
<b>Opening cash</b>	<b>16.0</b>	<b>15.3</b>	<b>10.3</b>	<b>11.4</b>	<b>14.6</b>
<b>Closing cash</b>	<b>15.3</b>	<b>10.3</b>	<b>11.4</b>	<b>14.6</b>	<b>23.1</b>



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