

Radico Khaitan

Miss in revenue; Beat in margin

Radico delivered a mixed result as there was a miss in revenue but a beat in margin. P&A volume grew by 5% YoY, supported by exports while Popular volume declined by 1% YoY. Radico's overall volume growth of 1% YoY was slightly ahead of the industry, which declined by 1%. Excluding AP (4% mix vs. 8% YoY) and CSD (down 25% YoY, ~10% mix), domestic volume growth stood at 9% YoY. Gross margin was up by sharply 232bps YoY to 50.8%, supported by benign RM inflation and improved mix (IMFL mix grew to 81.7%). Radico continued to gain market share in most major states. We expect Radico to sustain a strong earnings show over the next few quarters, led by (1) recovery in the industry (the most impacted states are recovering), (2) market share gains supported by new launches, (3) stable ENA prices, (4) strong traction in exports, and (5) reducing interest cost. We maintain our EPS estimates for FY21/Y22/FY23. We value Radico at 20x P/E on Mar-23E EPS to derive a target price of Rs 546. Maintain ADD.

- Premiumisation trend sustains:** Net revenue grew by 6% YoY (+17% in 3QFY20 and +11% in 2QFY21), vs our estimate of 10% YoY growth. P&A volume grew by 5% YoY (+21% in 3QFY20 and +4% in 2QFY21) while Popular volume declined by 1% YoY (+11% in 3QFY20 and +5% in 2QFY21). IMFL/Non-IMFL revenue grew by 5/10% YoY. Key markets like Maharashtra, Karnataka, UP and Telangana have returned to growth, but a few large states remained under pressure. AP impacted most and its revenue mix declined to 4% (8% last year) as regional players are gaining share (most leading players impacted). Radico saw sequential improvement in volumes, highest ever monthly volumes in December 2020. Ban on BIO products in CSD gave a boost to premium brands. New launches as well expanding portfolio in newer markets will grow P&A portfolio.
- Benign RM boosts margins:** GM expanded by 232bps YoY to 50.8% (-115bps in 3QFY20 and +91bps in 2QFY21), owing to benign RM inflation and improved product mix (higher IMFL mix, exports). S&D costs grew by 18% YoY as the company resumed investments in its brands. Employee costs declined by 5% YoY while other expenses remained flat YoY. EBITDA margin expanded by 238bps YoY to 18.2% (-151bps in 3QFY20 and +184bps in 2QFY21) vs expectation of 97bps YoY expansion. EBITDA grew by 22% YoY (HSIE 16%). PBT grew by 30% YoY while APAT grew by 29% YoY.
- Call takeaways:** (1) 8PM Premium Black volumes will be 1mn in FY21; (2) new UP excise policy will aid P&A growth and the company expects the policy to be emulated in more states of the country; (3) ENA remained stable on QoQ (7-8% down YoY), and the company expects prices to be stable in 4QFY21; (4) exports mix in revenue/volume stands at 7.5/6%; (5) net debt stood at Rs 2.5bn in December vs. Rs 3.8bn in March; (6) Radico is leader in CSD with 28% market share.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	6,842	6,479	5.6	6,301	8.6	24,270	23,863	28,134	30,960
EBITDA	1,246	1,025	21.5	1,072	16.1	3,718	4,100	4,856	5,371
APAT	805	623	29.2	724	11.2	2,156	2,608	3,191	3,645
Diluted EPS (Rs)	6.1	4.7	29.2	5.4	11.2	16.1	19.5	23.9	27.3
P/E (x)						30.4	25.1	20.5	17.9
EV / EBITDA (x)						18.6	16.1	13.3	11.6
RoCE (%)						14.5	13.7	16.0	16.9

Source: Company, HSIE Research

ADD

CMP (as on 29 Jan 2021)	Rs 489
Target Price	Rs 546
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 546	Rs 546
EPS %	FY21E	FY22E
	0%	0%

KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (Rs bn) / (\$ mn)	65/896
6m avg traded value (Rs mn)	192
52 Week high / low	Rs 530/220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	9.8	30.4	27.3
Relative (%)	(6.6)	8.8	14.9

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	40.31	40.31
FIs & Local MFs	16.59	16.96
FPIs	18.03	18.25
Public & Others	25.07	24.48
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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