



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Company details

Market cap:	Rs. 30,303 cr
52-week high/low:	Rs. 2,526 / 1,141
NSE volume: (No of shares)	3.1 lakh
BSE code:	532497
NSE code:	RADICO
Free float: (No of shares)	8.0 cr

Shareholding (%)

Promoters*	40.2
FII	19.2
DII	24.7
Others	15.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	30.2	30.6	90.2
Relative to Sensex	14.1	31.0	23.8	66.2

Sharekhan Research, Bloomberg

Radico Khaitan Ltd

Strong Q2 backed by premiumisation

Consumer Goods

Sharekhan code: RADICO

Reco/View: Buy



CMP: Rs. 2,265

Price Target: Rs. 2,644



Upgrade



Maintain



Downgrade

Summary

- Radico Khaitan Limited's (RKL's) Q2FY2025 numbers were strong beating estimates on all fronts, with net revenues rising by 21% y-o-y and OPM improving 152 bps y-o-y to 14.6%, leading to 33% y-o-y growth in PAT.
- Prestige & Above (P&A) brands posted 13% y-o-y volume growth (15th consecutive month of double-digit volume growth). With H2 expected to be good for premium segment, RKL has maintained 15-18% volume growth guidance for the P&A segment in FY2025.
- Management expects prices of grain, maize and rice to soften in the coming months, while glass bottle prices are likely to remain stable. Company aims for late-teens OPM in three years.
- Stock trades at 75x/56x/44x its FY25E/FY26E/FY27E earnings, respectively. We retain a Buy on the stock with a revised PT of Rs. 2,644.

RKL posted yet another quarter of strong performance in Q2FY2025 with numbers beating estimates on all fronts. Revenue grew by 20.7% y-o-y to Rs. 1,116 crore (versus expectation of Rs. 1,044 crore), OPM rose by 152 bps y-o-y to 14.6% (against expectation of 13.4%) and adjusted PAT rose by 32.9% y-o-y to Rs. 82 crore (versus Rs. 68 crore expected). Revenue growth was mainly driven by an 18% y-o-y growth in the P&A segment (volume growth of 13%) and a 55.9% y-o-y growth in the non-IMFL business. The regular & others segment reported a 12.3% y-o-y decline in revenue (volumes lower by 11.9%). Gross margins fell by 51 bps y-o-y to 43.6% due to significant foodgrain inflation offset by premiumization in the IMFL business. However, the same improved by 210 bps q-o-q due to premiumisation and stable raw/packaging material prices. Despite operating profit growth of 34.6% y-o-y to Rs. 163 crore, adjusted PAT grew by 24.4% y-o-y to Rs. 81 crore due to increased interest cost (up by 51% y-o-y) and depreciation charges (higher by 37% y-o-y). In H1FY2025, net revenues grew by 19.9% y-o-y to Rs. 2,253 crore, OPM improved by 105 bps y-o-y to 13.9% and adjusted PAT grew by 26.7% y-o-y to Rs. 159 crore. Net debt at Q2FY2025-end stood at Rs. 745 crore.

Key positives

- P&A category posted another quarter of volume-led growth; revenue rose 18% y-o-y driven by volume growth of 13%.
- Non-IMFL revenues grew by 55.9% y-o-y led by full capacity utilisation of the Sitapur plant.
- OPM improved by 152 bps y-o-y to 14.6%, beating estimates of 13.4%.

Key negatives

- Regular & others segment volumes and revenue both fell by 12% y-o-y.
- Royalty volume fell by 16.1% y-o-y to 0.78 million cases.

Management Commentary

- RKL launched *Rampur Indian Single Malt, Barrel Blush* in the international market in Q2 and plans to launch it in the domestic market next year. The company is seeing good traction in *Magic Moments Vodka, Royal Ranthambore* and *After Dark Premium Whisky* brands. Expects 15-18% volume growth in the P&A segment in FY2025.
- Region-specific issues of price increase in Karnataka, portfolio rationalization in Kerala and elections in Andhra Pradesh led to 14% y-o-y decline in Regular segment in H1. Management expects the segment to see mid-single digit growth going ahead.
- RKL launched *Magic Moments Remix Pink Vodka* in a 180 ml portable pack, which is seeing good acceptance. With vodka share lower in India at ~4% versus global share at ~20%+, management expects strong double-digit growth in this category in the coming years.
- With a policy change in Andhra Pradesh, the management expects to benefit from improving cash flows and option with retailers to choose brands. Volume and margins have seen improvement in Karnataka for premium brands.
- Management has indicated that gross margin improvement trajectory will continue as it expects prices of grain, maize, rice to soften in the coming months, while glass bottle prices are likely to remain stable. RKL is targeting 125-150 bps y-o-y OPM improvement every year and aims for late-teens OPM in three years.
- RKL has incurred capex of Rs. 956 crore on the *Rampur Dual Feed, Sitapur Green Field*, and other projects since April 2022.
- Net debt of Rs. 745 crore at Q2FY2025 increased by Rs. 58 crore since March 31, 2024 on account of cyclical building up of inventory and state-specific issues.

Revision in earnings estimates – We have broadly maintained our earnings estimates for FY2025 and FY2026 and will keenly monitor performance in the quarters ahead. We have introduced FY2027 estimates through this note.

Our Call

View – Retain Buy with a revised PT of Rs. 2,644: RKL registered yet another quarter of strong performance in Q2FY2025 amid tough demand environment with premium products continuing strong traction. Focus on premiumisation and support of backward integration will drive consistent strong double-digit earnings growth in the coming years. We like the company's focus on launching products in brown and white spirits, targeting the premium/luxury segment to consistently gain market share in key markets and outpace the industry. Margins have bottomed out and we should expect consistent improvement in profitability and cash flows in the coming years. The stock trades at 75x/56x/44x its FY25E/FY26E/FY27E earnings, respectively. We retain a Buy on the stock with a revised PT of Rs. 2,644.

Key Risks

Slow expansion in OPM due to a change in liquor policies in key states/sustained increase in excise rate on liquor or volatile increase in the raw material prices would act as a key risk to our earnings growth in the near to medium term.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	3,143	4,119	4,974	5,820	6,759
OPM (%)	11.4	12.3	13.5	14.5	15.1
Adjusted PAT	204	256	404	540	679
Adjusted EPS (Rs.)	16.5	19.6	30.2	40.4	50.8
P/E (x)	-	-	74.5	55.8	44.4
P/B (x)	13.6	12.3	10.7	9.1	7.7
EV/EBIDTA (x)	85.5	60.8	45.3	35.9	29.3
RoNW (%)	9.3	10.5	14.4	16.4	17.3
RoCE (%)	9.8	12.0	17.3	20.0	22.5

Source: Company; Sharekhan estimates