

FEBRUARY 25, 2019

	22-Feb	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	35,871	(0.1)	(1.6)	2.5
NIFTY Index	10,792	0.0	(1.2)	2.5
NSEBANK Index	26,868	(0.7)	(2.2)	3.3
NIFTY 500 Index	8,920	0.2	(2.3)	0.5
CNXMcap Index	16,543	0.4	(4.7)	(4.6)
BSESMCAP Index	13,518	0.8	(5.7)	(5.8)
World Indices				
Dow Jones	26,032	0.7	5.2	7.2
Nasdaq	7,528	0.9	5.1	8.5
FTSE	7,179	0.2	5.4	3.2
NIKKEI	21,426	(0.2)	3.8	(0.3)
Hangseng	21,426	(0.2)	3.8	(0.3)
Shanghai	28,816	0.7	4.6	11.2

Value traded (Rs cr)	22-Feb	% Chg Day
Cash BSE	2,794	36.5
Cash NSE	38,919	36.8
Derivatives	464,334	(69.3)

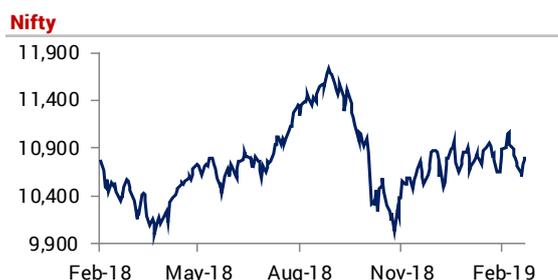
Net inflows (Rs cr)	21-Feb	MTD	YTD
FII	(338)	842	338
Mutual Fund	454	9,144	16,304

Nifty Gainers & Losers	Price	Chg	Vol
22-Feb	(Rs)	(%)	(mn)
Gainers			
Indian Oil Corp	137	4.7	25.0
HPCL	231	3.6	5.9
Yes Bank	222	3.2	51.3
Losers			
Kotak Mahindra Bank	1,238	(4.0)	83.9
Gail India	327	(1.4)	4.2
Reliance Ind	1,232	(1.2)	8.8

Advances / Declines (BSE)					
22-Feb	A	B	T	Total	% total
Advances	268	714	57	1,039	100
Declines	156	293	34	483	46
Unchanged	5	28	11	44	4

Commodity	% Chg			
	22-Feb	1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	67.0	(0.2)	8.7	13.9
Gold (US\$/OZ)	1,328.3	0.3	2.2	8.9
Silver (US\$/OZ)	15.9	0.7	1.4	11.8

Debt / forex market	22-Feb	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.4	7.4	7.3	7.7
Re/US\$	71.1	71.2	71.4	70.7



Source: Bloomberg

News Highlights

- ▶ Brexit could be delayed until 2021 under plans being explored by the EU's most senior officials, at a time of growing exasperation over Theresa May's handling of the talks. (ET)
- ▶ The Special Economic Zone (SEZ) inside the JNPT port is planning to bid out a fresh land parcels measuring 300 acres exclusively for manufacturing companies. The bid process is likely to be completed by March. (BL)
- ▶ Saudi Arabia is looking at making India a regional hub for supply of crude oil and will invest billions of dollars in the country to build storage facilities and strengthen refineries. (ET)
- ▶ The Goods and Services Tax Council decided to slash the levy on under-construction houses to 5% with a special rate of 1% introduced for affordable homes but opted to withdraw the benefit of tax credit on inputs such as steel, cement and paint, arguing that builders were pocketing the gains. (ET)
- ▶ RIL's is expecting its consumer businesses, Reliance Retail and Jio, to double sales in about seven years. Reliance Retail already operates more than 9,900 stores in over 6,400 cities across India. (Mint)
- ▶ Oil regulator PNGRB has rejected HPCL's objections to consultations it had initiated to break stranglehold of PSUs on lucrative pipeline supplying jet fuel to Mumbai airport, saying the refiner will get a formal opportunity to make its case against the move. (Moneycontrol)
- ▶ Wipro said it has received approval from majority of its shareholders for the issue of bonus shares and increase in authorised share capital. (ET)
- ▶ REC will have to obtain consent of at least 50 per cent of the foreign lenders before the company could be acquired by PFC as part of the disinvestment plans approved by the Cabinet. (Business Today)
- ▶ State Bank of India is looking at approaching the National Company Law Tribunal (NCLT) to recover its loans from private carrier Jet Airways. (ET)
- ▶ Finnish telecom gear maker Nokia said Bharti Airtel will conduct trial of the former's homogeneous front haul solution which can support 4G and 5G services. (ET)
- ▶ Raymond revamps supply chain, weighs on digital tools for more efficiency. (BS)
- ▶ Market regulator Sebi has circulated Motilal Oswal Commodities Broker Private Limited and India Infoline Commodities Limited as "not fit and proper". This order came in relation to the Rs.56bn National Spot Limited scam. (TOI)
- ▶ Private equity company KKR offered Rs 31 Bn to buy the stake held by Cafe Coffee Day (CCD) founder VG Siddhartha in Mindtree. (Mint)
- ▶ Piramal Enterprises boarded board decided to withdraw issuance of NCDs worth Rs 1.3 Bn. (Bloomberg)

What's Inside

- ▶ **Company Update:** Radico Khaitan Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	49470
52-wk Hi/Lo (Rs)	:	500 / 297
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	582,700
Shares o/s (mn)	:	133

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	18,228	20,755	23,259
Growth (%)	8.5	13.9	12.1
EBITDA	2,698	3,511	4,192
EBITDA margin (%)	14.8	16.9	18.0
PAT	1,235	1,892	2,453
EPS	9.3	14.2	18.4
EPS Growth (%)	52.8	53.3	29.6
Book value (Rs/share)	85.7	98.4	114.8
Dividend per share (Rs)	1.0	1.5	1.9
ROE (%)	11.4	15.4	17.3
ROCE (%)	12.3	17.5	21.9
P/E (x)	40.2	26.2	20.2
EV/EBITDA (x)	20.5	14.9	12.1
P/BV (x)	4.3	3.8	3.2

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Jun-18	Mar-18
Promoters	40.4	40.4	40.4
FII	22.7	23.3	24.3
DII	5.9	5.4	5.1
Others	28.8	28.6	27.4

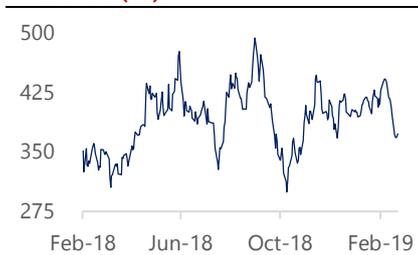
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Radico Khaitan Ltd	(10.2)	(6.8)	(12.5)
Nifty	(1.2)	2.5	(6.7)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

RADICO KHAITAN LTD (RKL)

PRICE RS.371

TARGET RS.460

BUY

Central Pollution Control Board (CPCB) has made certain observations on zero liquid discharge system of RKL's Rampur plant to improve the environmental conditions. Due to this, CPCB has directed closure of RKL's molasses and country liquor plant at Rampur, UP.

- RKL has clarified that it has initiated steps to comply with the additional requirement of CPCB and expect it to resolve the issue within 10-15 days. Based on our discussions with the management, the closure would be for next 10-15 days and will have impact on production of molasses based ENA and country liquor during the period. The company indicated that it has enough inventory to meet its requirement for IMFL during the period.
- Country liquor contributes ~13% to RKL's revenue, hence closure of these plants is expected to result loss in revenue of ~ Rs 150-200 mn and EBITDA of Rs 80-100 mn for FY19E. This will impact our FY19E revenue and EBITDA estimates by ~1% and ~3% respectively.
- The company has maintained its earlier guidance for overall volume growth of 8-9%, with prestige and above category expected to grow at 13-15% in volume terms in the longer run. The company targets to achieve EBITDA margins in late teens by FY21E and intends to be debt free in the next 1.5 years.

Valuation & outlook

We have cut our EPS estimates for FY19E by ~3%, while keeping it unchanged for FY20E. Based on FY19E/FY20E revised EPS of Rs 14.2/18.4, the stock is trading at PE of 26.2/20.2x. We upgrade our rating on the stock to Buy (Vs ADD earlier) after recent correction in the share price, with unchanged target price of Rs 460, valuing the stock at 25x FY20E EPS.

CPCB observation impact restricted to country liquor business in FY19E

RKL has announced that the CPCB, New Delhi has vide their letter dated 18th February 2019 made certain observations on zero liquid discharge system of one of the plant of the company at Rampur to improve the environmental conditions. Pending fulfilment of additional requirements, CPCB has directed closure of manufacturing operations at RKL' Rampur plant. The company manufactures country liquor, bulk alcohol, IMFL and pet bottle at this plant. Based on our discussions with the management, the closure is expected to be for next 10-15 days. This is applicable on production of molasses based ENA and country liquor and will not impact company's IMFL business. The company uses both grain based and molasses based ENA for its IMFL business and the closure will not impact grain/malt based ENA. Further, it has sufficient inventory of molasses based ENA to fulfil requirement of IMFL business during the period. In addition, it will not require any major capex in the facility to address the CPCB observations.

Reduce FY19E EPS estimates by 3%

Country liquor contributes ~13% to RKL's annual revenue. As per management, the closure of these plants is expected to result in revenue and EBITDA loss during closure period to the tune of ~ Rs 150-200 mn and Rs 80-100 mn respectively. EBITDA loss estimates also includes plant reopening cost and fixed cost during the closure of 15 days of operations. Based on this, the impact

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on our FY19E revenue and EBITDA estimates would be to the tune of ~1% and ~3% respectively. This will not have any impact on FY20E EPS estimates, assuming it gets clearance in 15 days. The company will update on the further development related to this matter later.

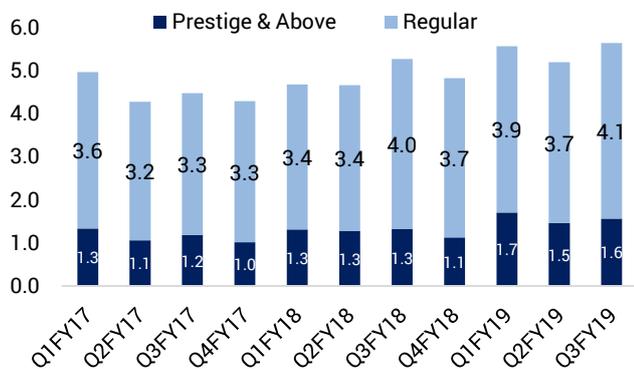
Q4FY19 to be softer due to earnings cut and slower qoq volume

After factoring the impact of shut down, Q4FY19 is expected to be flattish in terms of revenue growth. In addition, UP, the largest market for RKL, is also expected to see some destocking by the dealers as new licenses would be issued in the end of the year. Hence, Q4FY19 would see a decline in volume over Q3FY19, but the volumes would be higher than Q4FY18. However, the company would continue to be a strong player in UP as it enjoys strong market share of over 25%.

Maintained long term growth outlook

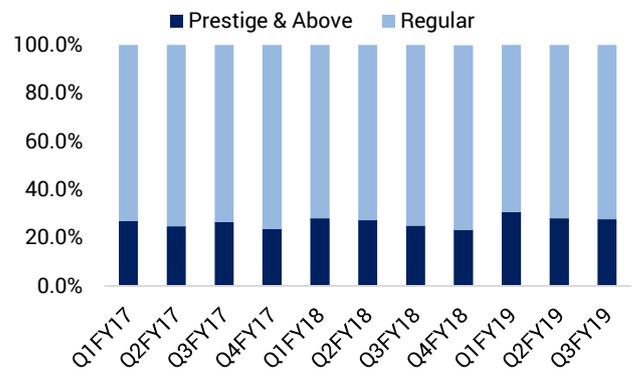
The company has maintained its earlier guidance for long term volume growth and margin. Earlier, it had guided for 8-9% growth in overall volume in the longer run with prestige & above category expected to grow at a faster pace of 13-15%, while regular category is expected to grow at 5-6% on yoy. The growth will be driven by strong performance of existing brands in prestige and above category as well as further pickup in new brands. Its recent launches like 8PM Black which is premium variant of 8PM whisky and 1965 premium rum are doing well. The company intends to launch two new brands in premium category in the next two years in brown spirits segment. Further, the management is confident of improving its margins in coming quarters based of improved realization led by better product mix. The company targets to achieve EBITDA margins in late teens by FY21E.

Volume trend (mn cases)



Source: Company

Volume Mix (%)



Source: Company

Aims to be debt free in next 1.5 years

The company has reduced its debt by Rs 2.76 bn in 9MFY19 to Rs 2.93 bn which was driven by strong operating and free cash flows. This has also resulted in decline in interest expenses. The company targets to reduce its debt further Q4FY19 and intends to be debt free in the next 1.5 years.

Outlook and valuation

We have cut our EPS estimates for FY19E by ~3% while keeping it unchanged for FY20E. Based on FY19E/FY20E revised EPS of Rs 14.2/18.4, the stock is trading at PE of 26.2/20.2x. We upgrade our rating on the stock to Buy (Vs ADD earlier) after recent correction in the share price, with unchanged target price of Rs 460, valuing the stock at 25x FY20E EPS.

Change in estimates

Particulars (Rs mn)	Previous		Revised		YoY Chg (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	20955	23259	20755	23259	(1.0)	0.0
EBITDA margin (%)	17.2	18	16.9	18.0	(30) bps	0 bps
PAT	1957	2453	1892	2453	(3.3)	0.0
EPS (Rs)	14.7	18.4	14.2	18.4	(3.3)	0.0

Source: Kotak Securities - Private Client Research

Company Background

Radico Khaitan Ltd (RKL) is one of the largest players in the Indian spirits industry and owns brands like 8PM whisky, Magic Moments vodka, etc. The company was formerly known as Rampur Distillery which was established in 1943. The promoter Mr. Lalit Khaitan along with his father bought Rampur Distillery in 1972. The company was operating as bottler for other spirit companies till 1999, when it forayed into its own brand. Now, RKL has evolved from a distillery player to a branded IMFL player in India with presence across product categories and has 4 brands in 1mn cases annual sales category. It operates three distilleries and one JV with total capacity of 157 million litres (30 mn cases of IMFL and 7 mn cases of country liquor) and 33 bottling units spread across the country. It has strong sales network through over 55,000 retail outlets across India. It is presently the market leader in premium vodka category with its brand Magic Moments. The company is increasing focus on premium/prestige category (Price >Rs 300/750ml) which is contributing 26% of its volume and 43% in value terms while regular brands (Price <Rs300/750ml) contributes 74% in volume and 57% in value terms.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	16,799	18,228	20,755	23,259
% change yoy	1.7	8.5	13.9	12.1
EBITDA	2,125	2,698	3,511	4,192
% change yoy	13.0	27.0	30.2	19.4
Depreciation	417	409	428	429
EBIT	1,708	2,289	3,084	3,764
Other Income	197	267	120	126
Interest	807	682	293	116
Profit Before Tax	1,097	1,873	2,911	3,773
% change yoy	11.1	70.7	55.5	29.6
Tax	291	638	1,019	1,321
as % of EBT	26.5	34.1	35.0	35.0
PAT	817	1,235	1,892	2,453
% change yoy	9.8	53.1	53.3	29.6
Shares outstanding (mn)	133	133	133	133
EPS (Rs)	6.1	9.3	14.2	18.4
DPS (Rs)	0.0	1.0	1.5	1.9
CEPS(Rs)	9.2	12.3	17.4	21.6
BVPS(Rs)	77.4	85.7	98.4	114.8

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-Tax Profit	1,086	1,873	2,911	3,773
Depreciation	417	409	428	429
Change in WC	528	705	1,330	(631)
Other operating activities	(98)	(377)	(1,019)	(1,321)
Operating Cash Flow	1,934	2,609	3,650	2,251
Capex	(164)	(405)	(500)	(300)
Free Cash Flow	1,770	2,205	3,150	1,951
Change in Investments	-	0	0	0
Investment cash flow	(164)	(405)	(500)	(300)
Equity Raised	0	1	0	0
Debt Raised	(1,607)	(2,065)	(3,000)	(1,700)
Dividend & others	(149)	(113)	(199)	(258)
CF from Financing	(1,756)	(2,178)	(3,199)	(1,958)
Change in Cash	14	27	(49)	(8)
Opening Cash	127	141	168	118
Closing Cash	141	168	118	111

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Paid - Up Equity Capital	266	267	267	267
Reserves	10,033	11,155	12,848	15,042
Net worth	10,299	11,421	13,114	15,309
Borrowings	7,990	5,925	2,925	1,225
Net Deferred tax	693	925	925	925
Total Liabilities	18,982	18,271	16,965	17,459
Gross block	7,873	8,098	8,598	8,898
Depreciation	835	1,244	1,672	2,100
Net block	7,038	6,854	6,927	6,798
Capital work in progress	22	202	202	202
Investments	2,054	2,054	2,054	2,054
Inventories	2,936	3,109	3,127	3,505
Sundry debtors	6,240	6,300	5,686	6,118
Cash and equivalents	141	168	118	111
Loans and advances & Others	2,660	3,322	3,322	3,488
Total current assets	11,978	12,898	12,254	13,221
Sundry creditors and others	2,726	3,819	4,435	4,779
Provisions	408	914	1,033	1,033
Total CL & provisions	3,134	4,733	5,468	5,812
Net current assets	8,843	8,165	6,786	7,409
Other net assets	1,025	996	996	996
Total Assets	18,982	18,271	16,965	17,459

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability Ratios				
EBITDA margin (%)	12.6	14.8	16.9	18.0
EBIT margin (%)	10.2	12.6	14.9	16.2
Net profit margin (%)	4.8	6.8	9.1	10.5
Adjusted EPS growth (%)	9.8	52.8	53.3	29.6
Balance Sheet Ratios:				
Receivables (days)	135.6	126.2	100.0	96.0
Inventory (days)	63.8	62.2	55.0	55.0
Loans & Advances	57.8	66.5	58.4	54.7
Payable (days)	59.2	76.5	78.0	75.0
Cash Conversion Cycle	198.0	178.4	135.4	130.7
Asset Turnover	0.9	1.0	1.2	1.3
Net Debt/ Equity	0.8	0.5	0.2	0.1
Return Ratios:				
RoCE (%)	8.8	12.3	17.5	21.9
RoE (%)	8.1	11.4	15.4	17.3
Valuation Ratios:				
P/E (x)	61.4	40.2	26.2	20.2
P/BV (x)	4.8	4.3	3.8	3.2
EV/EBITDA (x)	27.0	20.5	14.9	12.1
EV/Sales (x)	3.4	3.0	2.5	2.2

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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