

Radico Khaitan

Rs126
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs16.6bn; US\$361m

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Result: FY10

Comment: In-line!

Key financials

Year ended Mar 31 (Rs m)	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E (x)	PER (x)
FY08	8,094	36.8	331	3.2	(3.2)	22.5	39.2
FY09	6,960	(14.0)	65	0.6	(80.3)	42.8	198.7
FY10	8,358	20.1	416	3.2	397.2	15.5	40.0
FY11E	9,790	17.1	805	6.1	93.7	12.6	20.6
FY12E	11,352	16.0	1,046	8.0	30.0	10.6	15.9

Key highlights of Q4FY10 results and our interaction with the management

- Radico Khaitan (Radico) reported its Q4FY10 results. During the quarter, revenues have grown by 22% at Rs2.18bn, EBITDA stood at Rs319m and PAT stood at Rs96m (against pre-exception net loss of Rs169m in Q4FY09).
- Sales including tie up units registered a 25% growth at Rs3bn. Volume growth of IMFL brands during the quarter was lower at 6.8% on account of ~11% decline in 8PM Sales (impacted by pipeline clearance prior to the launch with new packaging). However, *Magic moments* registered volume growth of ~48%
- Overall EBITDA margins have improved sharply from 3% in Q4FY09 to 14.6% in Q4FY10. Gross margins have improved by 480bp on the back of easing molasses prices and improved mix (*Magic Moments* growing the fastest). Further, the quarter saw a 440bp saving on selling and distribution expenses and 210bp saving in employee costs.
- During the quarter, interest cost stood at Rs147m. This would come down further given the lower debt
- For the year FY10, reported revenues registered a growth of 21% at Rs8.4bn while sales including tie up units stood at Rs11.5bn – a 23% yoy growth with branded IMFL growing by 26%
- The growth during the year is driven by a 13.6% growth in IMFL portfolio and 3% effective price hikes. Exports during the year stood at USD17m.
- For FY10, EBIDTA margins have improved by 900bp at 15.6% on the back of improved mix and savings in raw material (average molasses prices at Rs499 in FY10 vis-a-vis Rs502 in FY09). EBITDA for the year stood at Rs1.3bn and PAT at Rs415m.
- During FY10, Radico registered an underlying volume growth of 13.6%, selling 14.6m cases. *Magic Moments*, the highest contribution brand, has grown by 39% at 1.4m cases. Whytehall Whisky has been the fastest growing brand garnering a 53.6% at 0.58m cases. However, Radico's flagship brand – *8PM Whisky* has grown by mere 5% at 3.6m cases.

- ♦ During the year *Contessa Rum* witnessed a volume decline of 9.9% at 2.25m cases. However, this is largely attributable to the fact that the segment itself is seeing a volume decline. Newly launched premium brandy brand – *Morpheus* has sold 80,000 cases during the year.
- ♦ During the year, Radico has incurred capital expenditure to the tune of Rs275m
- ♦ During the quarter, Radico raised funds to the tune of USD75m through QIP issuance at Rs116.19 per share. The proceeds from the same have been utilized towards debt repayment. Thus, debt as on 31st March 2010 stood at Rs4.2bn, taking the debt equity ratio to 0.7 (down from 3)

The turnaround story in Radico is clearly playing out, with 60% increase in operating profits (pre-exceptional) in the year. While strong growth in branded portfolio has underpinned a robust topline growth of 20%, premiumization of portfolio and lower molasses prices has translated into margin improvement of 900bp. We believe that profitability in the business would inch up further as Radico streamlines its portfolio at the premium segment – 30%+ growth of Magic Moments, scale up of Morpheus brand and upcoming launch of premium Whisky. Further, with QIP funding leading to debt repayment (and thereby interest costs halving), we see the inherent profitability in the business now coming to the fore. Thus, we expect the earnings to register a 58% CAGR over the next two years. At 16x FY12E earnings, Radico is trading at a 25% discount to consumer peers. Maintain Outperformer.

Performance of brands

	Q4FY09	Q4FY10	Growth (%)	FY09	FY10	Growth (%)
8PM	0.87	0.78	(10.6)	3.39	3.57	5.3
Magic Moments	0.25	0.37	47.6	1.02	1.42	39.1
Contessa Rum	0.68	0.57	(16.0)	2.5	2.25	(10.0)
Old Admiral Brandy	0.58	0.65	11.6	2	2.73	36.4
Whytehall Whisky	0.1	0.12	24.0	0.38	0.58	53.7
Morpheus Brandy	0	0.04		0	0.08	
Others	1.05	1.24	18.2	3.58	3.99	11.5
Total	3.53	3.77	6.8	12.87	14.62	13.6

Quarterly results

Quarterly results (Rs Mn)	Q4FY09	FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10	FY11E	FY12E
Net Sales	1,780.9	6,960	1,930.3	1,870.9	2,378.1	2,176.2	8,358	9,790	11,352
% yoy	0	(14)	16	8	34	22	20	17	16
EBITDA	53.8	457	303.9	319.0	360.0	318.7	1,302	1,625	1,937
EBITDA	3	7	16	17	15	15	16	17	17
Net interest	141.0	452	153.6	160.2	156.2	147.2	617	351	335
Depreciation	66.2	231	62.5	62.5	62.5	68.5	256	278	293
Other Income	7.2	350	0.4	30.5	0.3	4.8	71	50	50
Profit before Tax	(146.2)	123	88.1	126.9	141.5	107.8	500	1,045	1,359
Tax	22.8	58	16.2	29.7	26.3	11.8	84	240	313
Extraordinary	(173.2)		(35.1)	-	-	-			
Profit After Tax	4.2	65	107.0	97.1	115.2	96.0	416	805	1,046
% yoy	0	(80)	56	61	(269)	2194	538	94	30

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2. Neutral: Within 0-5% to Index
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