

### About the Company

Radico Khaitan Limited (RKL), earlier known as Rampur Distillery, commenced its operation in 1943. Over the years, RKL has evolved from being just a distiller of spirits for other brands to a leading Indian-made Foreign Liquor (IMFL) company. RKL started its own brands in 1998 with the launch of 8PM Whisky subsequently expanded its brand portfolio organically. The company is also one of the largest providers of branded IMFL to the Canteen Stores Department (CSD), which has significant business barriers to entry. The company has distilleries situated in Rampur, Sitapur and Aurangabad, Maharashtra, with the latter being a 36% joint venture. The company has a total owned capacity of 320 Mn litres and operates 43 bottling units (5 owned, 29 contract and 9 royalty bottling units). It is also one of the largest exporters of Alcoholic beverages from India, with brands available in over 102 countries.

### Investment Rationale

- **Strong Industry tailwinds:** The Indian alco-bev market is estimated to be worth Rs 3.2 Tn as of FY23 and is expected to grow at 11%/14% CAGR in terms of volume/value over FY23-FY28E. IMFL is the largest segment of the Indian alco-beverage market both in terms of volume (~36%) and value (~72%). As per Euromonitor, IMFL volumes are expected to grow at 5.6% CAGR over CY24-28 to reach 511 Mn cases by CY28 (11% CAGR in value terms). Consumer preferences in the Indian alco-bev market are increasingly shifting towards premium products, driven by rising incomes, product innovation, growing cocktail culture, an increasing preference for white spirits, and increasing participation from female drinkers. This trend is expected to result in rapid premiumization within the sector. Furthermore, recent government reforms in key states like UP (new liquor policy), Karnataka (streamlining excise slabs), Andhra Pradesh (privatizing distribution) and Telangana (clearing past dues) coupled with expectation of more states likely to introduce reforms are expected to benefit the alco-beverage industry in the coming years.
- **Driving the Premiumization wave:** RKL's premium portfolio mix (P&A) has increased from 25% in FY18 to 45% in FY24 while its P&A volume grew 14% CAGR over same period. This growth is led by a diverse portfolio across price points and the launch of access packs (LUP/Hipster) particularly in vodka. Moreover, with (a) newer products in the pipeline especially in the luxury segment and scaling of single malt portfolio, (b) expansion of distribution reach particularly in south market and (c) solid GTM execution in core markets of UP are expected to drive further premiumization for RKL in coming years. We expect P&A volumes to grow at 15% CAGR over FY24-27.
- **Likely to see margin expansion in coming years:** Over the past three years, RKL was grappling with input cost pressure. However, it mitigated the impact through accelerating premiumization and cost optimization program. Moreover, the commencement of operations at the Sitapur distillery, a shift from glass to PET bottles in the regular segment (low margin), the elimination of mono cartons, and the stability in ENA and glass bottle prices are expected to yield further benefits for RKL in the coming years. RKL has guided for 100-125bps margin expansion each year to reach high-teens EBITDA margin over the next three years.

### Valuation / Analyst recommendation:

- Considering robust growth prospects, led by premiumization and strong industry tailwinds coupled with improving operational metrics, we believe Radico Khaitan provides a good potential upside from the current levels. We recommend a BUY on the stock with an upside of 10% from the CMP.

### Financial Summary

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	P/E (x)	RoE (%)	RoCE (%)
FY24	4,119	506	262	20	114	11	10
FY25E	4,755	678	361	27	83	13	12
FY26E	5,472	864	504	38	59	16	15
FY27E	6,313	1,040	642	48	47	17	17

Source: Axis Securities; CMP as on 15<sup>th</sup> January, 2025

Duration: 3-6 Months

CMP (Rs)	2,196
Target Price (Rs)	2,415
Upside (%)	10%

### | Why Radico Khaitan Ltd

- ✓ Robust Industry tailwinds
- ✓ Driving Premiumisation wave
- ✓ Margin expansion
- ✓ Reducing Debt and Improving return profile

### | Key risks

- ✓ Regulatory hurdles
- ✓ Raw material inflation
- ✓ Weak discretionary demand
- ✓ Rising competitive intensity

### MARKET DATA

No. of Shares	13.4 Cr
Market Cap	29,389
52-week High / Low	2637 / 1428
BSE Code	532497
NSE Code	RADICO

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## | OBJECTIVE



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## | Axis PUNCH is strong research based idea based on



**Events Based:** Our recommendations are based on the following critical factors, providing a comprehensive approach to medium-term investment opportunities:

- **Company-Specific Events:** Recommendations consider significant company-specific events such as new orders, product launches, acquisitions, management changes, and the commissioning of new plants.
- **Commodity Price Fluctuations:** We analyze changes in commodity prices, including metals, cement, chemicals, and pharmaceutical materials.
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- **Sector Developments:** Material developments within sectors, including monthly production and sales numbers in industries like Auto, Cement, and Steel, as well as competitive landscape changes due to business actions or new entrants/exits, are considered.
- **Earnings Surprises:** We identify companies expected to report better-than-anticipated earnings in upcoming quarters.
- **Corporate Actions:** Corporate actions such as mergers and acquisitions, capital raising programs, and regulatory announcements that impact a company or its industry form crucial elements for our recommendations.

**Strategic Insights:** Benefit from insights based on a blend of critical business events, economic trends, and thorough company valuations.

**Informed Decisions:** Make well-informed investment decisions backed by the expertise of our dedicated research team.

**Medium-term Horizon:** Enjoy the medium-term investment strategy, perfectly suited for those looking to optimize returns over 3 to 6 months.

## | Why to choose Axis PUNCH



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