

Radico Khaitan

Key changes in Uttar Pradesh excise policy

Good times are here to stay; maintain high-conviction BUY: Uttar Pradesh has recently released a new excise policy for FY26, highlighting a series of reforms, which in our view, shall benefit mainstream liquor companies. Radico is likely to be a significant beneficiary, since UP contributes to 25% of its domestic volumes. The following reforms are likely to boost volume growth in the state: (1) allowing the sale of LUPs (60 ml and 90 ml) for both the regular and premium segments, which shall drive conversion from country liquor to regular IMFL and encourage trials in the premium segment; (2) creation of a composite shop distribution network—permitting the sale of beer, liquor and wine from a single store, which will increase the overall distribution reach. Moreover, the existing liquor retailers will have to wind up their business and reapply in the e-lottery system; and (3) reorganising supply chain of liquor, thereby freeing up working capital for liquor companies. However, in the near term, liquor companies may witness demand headwinds, as existing retailers de-stock their inventory. Incrementally, we were disappointed via the fact that the anticipated price hikes for UPML (UP manufactured Liquor) did not come through which could further strain profitability (margins in UPML are around 5-6%).

Low unit packs set to get budget booster: In the new excise policy, the government has permitted sales of 90 ml packs in the regular segment, thereby driving conversion from country liquor and making it affordable, aiding volume growth. Additionally, the sale of 60 and 90 ml packs of the premium segment will encourage trials and repurchases, which was only available at 180 ml prior. Radico Khaitan's decision of pushing these LUPs will depend upon pricing policy of these packs, which is yet to be declared by the state govt.

Composite shops to improve distribution reach: Prior to the new excise policy, retailers were in a position to sell either beer/wine or liquor, for which a separate store license was required. Through the introduction of composite shops (sale of beer, liquor and wine from a single store), stores that used to solely sell beer would be eligible to sell other liquor and vice-versa. For example, if 100 stores had the license for beer sales and 100 stores had the license for liquor sales, total distribution for both would inch towards 200 in a relatively short span of time post the introduction of such a policy, in turn helping liquor companies increase their distribution reach.

E-lottery license allotment to weigh on near-term demand: In accordance with the new policy, existing liquor retailers are not permitted for automatic renewal, which was the norm earlier. The new policy announced the e-lottery system for license distribution for FY26 with an intent to increase excise revenue (since license holder has to pay Rs 2.5 mn annually per store) and break any monopolies that may have surfaced in the previous regime. This reform is favourable in the medium and long term; however, in the near term, the existing liquor retailers will reduce purchases as they prioritise to empty stock before license expiry. The policy has hinted for automatic renewal in FY27, subjected to payment of annual license fees of Rs 2.5 mn. In order to reduce monopolies, a single entity cannot own more than two licenses under the new system.

Annual financial summary

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	30,740	39,747	46,760	53,281	60,943
EBITDA	3,583	5,061	6,633	8,182	10,101
APAT	2,204	2,622	3,498	4,825	6,305
Diluted EPS (Rs)	16.5	19.6	26.2	36.1	47.2
P/E (x)	144.4	121.4	90.9	65.9	50.5
EV/EBITDA (x)	90.2	63.9	48.7	39.1	31.3
Core RoCE (%)	9.2	10.2	12.7	15.1	17.0

Source: Company, HSIE Research

BUY

CMP (as on 07 Feb 2025) INR 2,247

Target Price INR 2,600

NIFTY 23,560

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,600	INR 2,600
EPS %	FY26E	FY27E
	0.0%	0.0%

KEY STOCK DATA

Bloomberg code	RDCK IN
No. of Shares (mn)	134
MCap (INR bn) / (\$ mn)	301/3,438
6m avg traded value (INR mn)	806
52 Week high / low	INR 2,638/1,429

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.6)	34.6	28.8
Relative (%)	(3.5)	36.6	20.9

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	40.24	40.24
FIs & Local MFs	24.71	25.56
FPIs	18.60	17.72
Public & Others	16.45	16.48
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Reworking of supply chain dynamics (payment of excise duty) to ease WC:

Earlier: Post sale to wholesalers, companies used to pay the excise duty to government (75-80% of final price of the product) and collect Ex-Distillery price (EDP i.e. 20-25% of the final price of the product) from wholesalers, thereby deploying working capital towards excise duty. Radico Khaitan used to recover the excise duty (which it earlier paid to the government) when sale is made from the wholesaler to retailer.

Now : Under the new structure, liquor companies will sell to wholesalers at EDP (20-25% of the final product) and responsibility of paying excise duty (75-80% of final price) to govt will fall on the shoulders of wholesalers. The new structure would incentivize the wholesalers to prioritize fast-moving liquor brands as any delays in offtakes would increase their working capital requirements. Moreover, new retailers who will get allotment under E-lottery system are likely to favour large/mainstream brands owing to higher velocity and strong brand equity.

Benefit to liquor companies: Additionally, companies are set to benefit with the freeing up of capital; which may be deployed for further expansion or debt repayment. We expect interest cost savings of Rs 100 mn for RDCK in FY26.

Anticipated price hikes for the UPML did not come through: UPML (Uttar Pradesh Manufactured Liquor) and country liquor are experiencing strong growth due to the state's robust economic growth (10%+ GDP CAGR over FY19-24) and a favourable policy environment. However, profitability in this segment has been severely impacted by persistent inflation in ENA prices, which have been rising for several quarters. In addition to raw material inflation, Radico's profitability is further constrained by its inability to raise prices, as the pricing policy for UPML and country liquor is regulated by the state government. Management had expected the profitability in this segment to improve if the excise policy declared a price hike. Unfortunately, the policy has not declared any price hikes and the margins are set to continue in the 5-6% range. However, there is a chance that margin might improve due to favourable RM index, particularly broken rice. We expect price of broken rice to correct, as FCI releases excess stock into the market.

View and outlook: We continue to maintain Radico as a high-conviction BUY with a target price of INR 2,600 (52x FY27 EPS). We expect the company to deliver revenue/EBITDA/PAT CAGRs of 15%/26%/34%, respectively, over FY24-27, driven by the following factors: (1) favourable policy interventions in high-salience states of Karnataka/AP—reduction in excise duties (Karnataka) and a new liquor policy favouring private players (Andhra Pradesh); (2) the regular IMFL segment seeing an uptick after many quarters of subdued volumes, due to a favourable base and policy interventions; (3) improved salience from the high-margin luxury/premium segment, as management doubles the malt capacity; (4) moderation in the RM index, along with management initiatives on cost optimization, such as the commencement of the Sitapur distillery, shifting to PET bottles from glass in the regular segment, and the removal of mono cartons, all supporting margins.

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	30,740	39,747	46,760	53,281	60,943
Growth (%)	9.0	29.3	17.6	13.9	14.4
Material Expenses	18,279	23,665	26,623	29,818	33,545
Employee Expense	1,689	1,958	2,154	2,423	2,726
Other Expenses	7,876	10,502	12,213	13,825	15,654
EBITDA	3,583	5,061	6,633	8,182	10,101
EBITDA Growth (%)	(10.9)	41.2	31.1	23.4	23.5
EBITDA Margin (%)	11.7	12.7	14.2	15.4	16.6
Depreciation	709	1,138	1,399	1,497	1,602
EBIT	2,874	3,923	5,234	6,685	8,499
Other Income	94	89	106	160	295
Interest	221	591	708	430	390
PBT	2,747	3,420	4,632	6,415	8,405
Tax	704	863	1,204	1,668	2,185
Profit from minority/associates					
RPAT	2,204	2,622	3,498	4,825	6,305
Adjustment	-	-	-	-	-
Adjusted PAT	2,204	2,622	3,498	4,825	6,305
APAT Growth (%)	(16.3)	19.0	33.4	37.9	30.7
Adjusted EPS (INR)	16.5	19.6	26.2	36.1	47.2
EPS Growth (%)	(16.3)	19.0	33.4	37.9	30.7

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	267	267	267	267	267
Reserves	21,813	24,129	27,103	31,445	37,120
Total Shareholders Funds	22,081	24,396	27,370	31,713	37,387
Minority Interest	-	-	-	-	-
Long Term Debt	2,869	2,900	2,900	2,900	2,900
Short Term Debt	3,677	3,114	1,614	614	614
Total Debt	6,546	6,014	4,514	3,514	3,514
Net Deferred Taxes	777	919	919	919	919
Other Non-current Liabilities & Provns	452	612	612	612	612
TOTAL SOURCES OF FUNDS	29,856	31,942	33,415	36,758	42,433
APPLICATION OF FUNDS					
Net Block	12,263	16,935	17,036	16,289	15,437
CWIP	3,256	527	527	527	527
Other Non Current Assets	2,863	2,609	2,680	2,758	2,843
Total Non-current Assets	18,382	20,071	20,243	19,574	18,807
Inventories	7,154	7,797	8,968	10,218	11,688
Debtors	8,241	9,782	12,170	13,868	15,862
Other Current Assets	2,102	2,294	2,294	2,294	2,294
Cash & Equivalents	1,313	1,006	(79)	1,521	5,129
Total Current Assets	18,810	20,879	23,354	27,901	34,972
Creditors	2,749	2,670	3,843	4,379	5,009
Other Current Liabilities & Provns	4,587	6,338	6,338	6,338	6,338
Total Current Liabilities	7,336	9,008	10,181	10,717	11,347
Net Current Assets	11,474	11,870	13,173	17,184	23,625
TOTAL APPLICATION OF FUNDS	29,856	31,942	33,415	36,758	42,433

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	2,907	3,485	4,632	6,415	8,405
Non-operating & EO Items	(120)	7	-	-	-
Interest Expenses	221	591	-	-	-
Depreciation	709	1,138	1,399	1,497	1,602
Working Capital Change	(612)	(2,667)	(2,387)	(2,412)	(2,834)
Tax Paid	(719)	(726)	(1,204)	(1,668)	(2,185)
OPERATING CASH FLOW (a)	2,386	1,829	2,440	3,832	4,988
Capex	(7,337)	(2,522)	(1,500)	(750)	(750)
Free Cash Flow (FCF)	(4,950)	(693)	940	3,082	4,238
Investments	284	98	-	-	-
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	(7,052)	(2,424)	(1,500)	(750)	(750)
Debt Issuance/(Repaid)	5,545	1,339	(1,500)	(1,000)	-
Interest Expenses	(82)	(194)	-	-	-
FCFE	(10,129)	(1,740)	2,440	4,082	4,238
Share Capital Issuance	-	37	-	-	-
Dividend	-	-	-	-	-
Others	(188)	(543)	-	-	-
FINANCING CASH FLOW (c)	5,275	638	(1,500)	(1,000)	-
NET CASH FLOW (a+b+c)	609	43	(560)	2,082	4,238
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	1,221	862	(222)	1,378	4,985

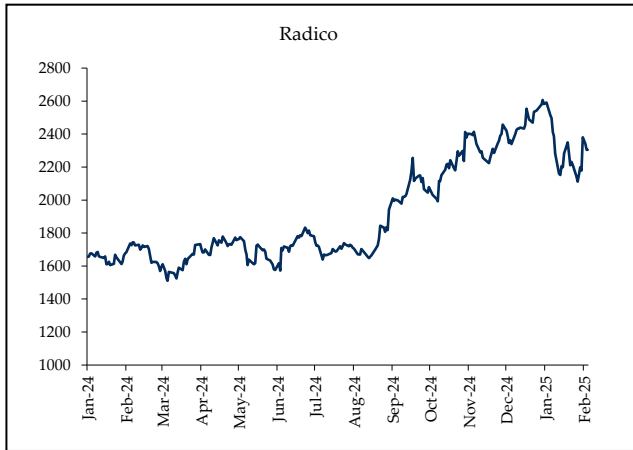
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	40.5	40.5	43.1	44.0	45.0
EBITDA Margin	11.7	12.7	14.2	15.4	16.6
EBIT Margin	9.4	9.9	11.2	12.5	13.9
APAT Margin	7.2	6.6	7.5	9.1	10.3
RoE	10.4	11.3	13.5	16.3	18.2
RoIC (or Core RoCE)	8.7	10.2	12.4	14.8	17.8
RoCE	9.2	10.2	12.7	15.1	17.0
EFFICIENCY					
Tax Rate (%)	25.6	25.2	26.0	26.0	26.0
Fixed Asset Turnover (x)	2.5	2.3	2.7	3.3	3.9
Inventory (days)	85	72	70	70	70
Debtors (days)	98	90	95	95	95
Other Current Assets (days)	25	21	18	16	14
Payables (days)	33	25	30	30	30
Other Current Liab & Provns (days)	54	58	49	43	38
Cash Conversion Cycle (days)	121	100	103	107	111
Net D/E (x)	0.2	0.2	0.2	0.1	(0.0)
Interest Coverage (x)	13.0	6.6	7.4	15.6	21.8
PER SHARE DATA (Rs)					
EPS	16.5	19.6	26.2	36.1	47.2
CEPS	21.8	28.1	36.6	47.3	59.2
Dividend	3.0	3.0	3.9	3.6	4.7
Book Value	165.2	182.5	204.8	237.2	279.7
VALUATION					
P/E (x)	144.4	121.4	90.9	65.9	50.5
P/BV (x)	14.4	13.0	11.6	10.0	8.5
EV/EBITDA (x)	90.2	63.9	48.7	39.1	31.3
EV/Revenues (x)	10.5	8.1	6.9	6.0	5.2
OCF/EV (%)	0.7	0.6	0.8	1.2	1.6
FCF/EV (%)	(1.5)	(0.2)	0.3	1.0	1.3
FCFE/Mkt Cap (%)	(3.2)	(0.5)	0.8	1.3	1.3
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

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