

Radico Khaitan Limited

July 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	650.00	CARE AA-; Positive [Double A minus; Outlook: Positive]	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	60.00	CARE A1+	Reaffirmed
Total Facilities	710.00 (Rs. Seven hundred Ten Crore only)		
Commercial Paper Issue [^]	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

[^] Carved out of working capital limits of the company

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities and commercial paper issue of Radico Khaitan Limited (RKL) take into account the sustained improvement in its financial risk profile characterized by enhanced profitability and strengthening of its capital structure and improved liquidity position during FY21 (refers to the period April 01, 2020 to March 31, 2021). The ratings also take into account RKL's strengthening market position and strong nation-wide presence in the Indian-made foreign liquor (IMFL) segment albeit with some concentration in UP, high entry barriers in the industry, established brands along with efficient supply chain management, and the company's experienced promoters. The ratings, however, continue to remain constrained by cyclicalities in prices of its raw materials, which are primarily agricultural commodities, and the company's presence in a highly regulated industry which exposes it to changes in the state policies regarding pricing and sales of country liquor and IMFL.

Positive:

- Increase in total income over Rs.2600 Cr while maintaining PBILDT margin above 16% on sustained basis
- Increase in contribution of prestige and above (P&A) category to over 30% of total sales by volume

Negative:

- Decrease in total income below Rs.2000 Cr with PBILDT margin below 12%
- Any capex plans and new term loan resulting in increase in overall gearing beyond 0.50x
- Any unfavourable change in liquor policy in UP from where the company derives ~31% of its IMFL sales.

Outlook: Positive

The revision in the outlook of long-term ratings of RKL takes into account the improvement in financial risk profile of the company owing to significant debt reduction over the years coupled with healthy profitability margins on sustained basis. Going forward, the company's ability to improve sales volume, maintain the profitability margins while increasing the share of P&A brands in total sales of the company will remain a key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and reputed name in the industry: RKL, promoted and managed by Khaitan family, has been in the business of liquor manufacturing since 1943 (by the name of Rampur Distillery). In 1998, RKL entered the branded liquor segment with launch of *8PM Whisky*. Since then, the company has launched various successful brands and currently RKL is one of the leading players in the Indian liquor industry.

Improved financial risk profile: The overall total income of the company for FY21 registered a slight decline from FY20 levels, owing to the impact of lockdowns imposed due to COVID-19 resulting in decline in sales volume. However, the PBILDT margin of the company improved to 17.75% in FY21 (PY: 15.52%) owing to favourable molasses and grain prices coupled with profitable product mix with focus on premium brands which account for ~29% of sales by volume. Furthermore, with lower interest cost due to lesser working capital borrowings, the PAT margin of the company also improved to 11.34% in FY21 as compared to 9.25% in FY20.

The capital structure of the company has remained comfortable over the years. The overall gearing of the company improved and stood at 0.16x as on March 31, 2021 as compared to 0.27x as on March 31, 2020, improvement on account of lower utilization of working capital limits and accretion of profits to reserves. The PBILDT interest coverage also registered significant improvement and was reported at 18.94x in FY21. The total debt to GCA remains comfortable at 0.88x as on March 31, 2021 (PY: 1.61x).

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Established brands and efficient supply chain management: RKL's portfolio currently includes four millionaire brands namely *8PM Whisky*, *Contessa Rum*, *Old Admiral Brandy* and *Magic Moments Vodka*. Apart from this it distributes other successful brands like *Whytehall* whisky and *Brihans* range of brands acquired inorganically. During FY19, company launched premium variant of *8PM Whisky* – *8PM Premium Black* and a superior variant of *Morpheus brandy* – *Morpheus Blue*. The *8PM Premium Black Whiskey* has achieved a million-case volume during the FY21. However, the revenue of the company appears to be concentrated with Uttar Pradesh accounting for around 31% of IMFL sales.

The company has 28 bottling units spanning across the entire country, of which five are owned and 23 are contract bottling units. The company's products are sold through over 75,000 retail and 8,000 on-premise outlets. RKL has put in place a robust distribution system that enables the company to ensure timely delivery of products across channels and geographies. The company has also evolved its go-to-market strategies to keep pace with the changing dynamics of the market.

Strong position in defence segment: RKL is one of the largest players in the defence market where its most famous brand is *Contessa* rum. Two more brands *After Dark Whisky* and *Morpheus Brandy* have been approved to supply to Canteen Store Department (CSD). The company derives around 10-11% of IMFL sales income from CSD. There are stringent conditions for entering into CSD segment leading to entry barriers for new players.

High entry barriers: Liquor policies governing its production and sale are entirely controlled by respective State governments. With all the alcohol-consuming states/union territories having their own regulations and entry-exit restrictions, it is very difficult for new entrants to get licenses thus providing a competitive advantage to existing players.

Key Rating Weaknesses

Highly regulated industry: Liquor industry is highly regulated in India with each state controlling the production, sales and duty structure independently. As a result, there are difficulties in transfer of production from one state to another along with huge burden of duties and taxes. The state controls the licences for production, distributorship and retailing also. Further, there is also the risk of introduction of prohibition laws in states with negative connotations associated with liquor industry in India.

Cyclicality in raw material prices: ENA (Extra Neutral Alcohol) forms a major component of the raw materials required for the company's product portfolio and hence commodity price volatility remains one of the key considerations. ENA is produced from the byproduct molasses in the sugar manufacturing process or from grains. Lower than anticipated sugarcane production and/or any sharp rise in prices of molasses or ENA will have an impact on the company's profitability. Prices of ENA and molasses are likely to increase with the Government encourage its alternative use in the ethanol blending programme (EBP), offering attractive returns. However, the company produces more of its alcohol through the grain-based route and has adequate capacity to shift to more grain-based distillation, which insulates it against any significant increase in prices of molasses. The company also has an advantage of backward integrated distillation capacities which insulates the company to a certain extent from any significant movement in the ENA prices. The margins are susceptible to the volatility in the price of molasses and grains. However, the company maintains a sizable inventory of molasses which insulates it against short- and medium-term fluctuations in molasses prices.

Industry prospects

The products ENA mainly find application in potable alcohol manufacturing. However, the absolute ethanol can also be used as ethanol to blend in fuel. Moreover, India's alcohol industry is the third largest in the world, with an estimated retail market size of USD 35 billion. Further, India produces 2.7 billion litres of ENA of which 90% of the produce is utilized for manufacturing of potable alcohol. Key demand drivers of the industry have been growing disposable incomes, increasing rural consumption, rapid urbanization, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, which has cumulative favourable effect on liquor manufacturers. India has a young demographic profile with a median age of 28 years and around 67% of the population is within the legal drinking age. These two indicators represent significant growth opportunities for the industry.

Liquidity : Strong

The liquidity profile of the company is marked by projected GCA of Rs.343.95 crore in FY22 against minimal repayments of Rs.5.40 crore. The capex plans of the company is expected to cost around Rs.200 Cr in FY22 and is proposed to be funded through internal accruals. The cash and bank balance of the company stood at Rs.121.10 Cr as on March 31, 2021 while current ratio stood at 1.97x. The operating cycle of the company stood at 73 days in FY21 with a low collection period of 26 days as against average creditor period of 48 days. The average inventory period stood at 95 days in FY21. The average utilization of working capital limits stood at around 70% for the last 12 months ended May 2021. The company has sizeable unutilized limits which provides additional liquidity.

Analytical approach:

Standalone

Applicable Criteria[Criteria on assigning 'outlook' and 'credit watch'](#)[CARE's Policy on Default Recognition](#)[Rating Methodology-Manufacturing Companies](#)[CARE's methodology for Short-term Instruments](#)[Liquidity Analysis of Non-financial sector entities](#)[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)**About the Company**

RKL is engaged in manufacturing Rectified Spirit (RS), Extra Neutral Alcohol (ENA), Country Liquor and IMFL. The company has one of the largest distilleries in India at Rampur with molasses based distilling capacity of 75 MN litres per annum and grain-based distillation capacity of 27 MN litres per annum. The company also has tie-ups with 23 bottling units spread across the country in addition to its five own bottling units. In Maharashtra, RKL has tied up with its JV Radico NV (36% shareholding) for bottling operations. The company has three distilleries and one JV (Radico NV Distilleries Maharashtra – 36% stake) with total of 159.50 MN liters distillation capacity. The Company launched ten new brands over the past decade. Of these new brands, nine brands are in the premium category. RKL currently has four millionaire brands in terms of number of cases sold in their portfolios which are 8PM Whisky, Contessa Rum, Old Admiral Brandy and Magic Moments Vodka.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2458.20	2382.87
PBILDT	381.46	422.98
PAT	227.50	270.56
Overall gearing (times)	0.27	0.16
Interest coverage (times)	11.95	18.94

A: Audited

Status of non-cooperation with previous CRA: NA**Any other information: NA****Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	60.00	CARE A1+
Fund-based-Long Term	-	-	-	650.00	CARE AA-; Positive
Commercial Paper-Commercial Paper (Carved out)	-	-	-	100.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1+	-	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (CWD) (05-Jul-19)	1)CARE A1+ (CWD) (01-Mar-19) 2)CARE A1+ (17-Sep-18) 3)CARE A1 (06-Apr-18)
2.	Fund-based-Long Term	LT	650.00	CARE AA-; Positive	-	1)CARE AA-; Stable (07-Jul-20)	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA- (CWD) (05-Jul-19)	1)CARE AA- (CWD) (01-Mar-19) 2)CARE AA-; Stable (17-Sep-18) 3)CARE A; Stable (06-Apr-18)
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA- (CWD) (05-Jul-19)	1)CARE AA- (CWD) (01-Mar-19) 2)CARE AA-; Stable (17-Sep-18) 3)CARE A; Stable (06-Apr-18)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (CWD) (05-Jul-19)	1)CARE A1+ (CWD) (01-Mar-19) 2)CARE A1+ (25-Dec-18) 3)CARE A1+ (11-Sep-18) 4)CARE A1 (06-Apr-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based-Long Term	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure 4: Complexity level of various instruments rated for this company: NA

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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