# Radico Khaitan Limited

June 20, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 1,245.00 (Enhanced from 1,150.00) | CARE AA-; Positive | Reaffirmed |
| Short-term bank facilities | 60.00 | CARE A1+ | Reaffirmed |
| Commercial paper (Carved out)* | - | - | Withdrawn |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Radico Khaitan Limited (RKL) continue to derive strength from its strengthening market position and strong nationwide presence in the Indian-made foreign liquor (IMFL) segment albeit with some concentration in Uttar Pradesh, the high entry barriers in the industry, and established brands along with efficient supply chain management. The ratings also take into account RKL's strong financial risk profile, marked by healthy growth in its sales volume and total operating income (TOI) along with an increasing mix of premium category sales, and capital structure. Furthermore, CARE Ratings Limited (CARE Ratings) believes that the completion of the ongoing backward integration capex and the price hike which it has received which will be effective from April 2023 along with the ongoing premiumisation of the portfolio and cost optimisation are the key drivers which will aid in the enhancement of the operating profitability and RKL's credit profile going forward.
The ratings continue to remain constrained by the cyclicality in the prices of its raw materials, which are primarily, agricultural commodities, and the company's presence in a highly regulated industry, which exposes it to the changes in the state policies regarding pricing and sales of country liquor and IMFL.
Furthermore, the rating assigned to the commercial paper issue of RKL is withdrawn on the request of the company and nil outstanding against the same.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Increase in the total income with higher contribution from the prestige and above (P&A) category, while maintaining a PBILDT margin above 13% on a sustained basis.
- Successful completion of the capex and the ability to derive the envisaged benefits with total debt to EBITDA below 2x on sustained basis.

### Negative factors

- Decrease in the total income below ₹2,000 crore, with a PBILDT margin below 12% on a sustained basis.
- Total debt to PBILDT deteriorating beyond 2.5x.
- Any unfavourable change in the liquor policy in Uttar Pradesh or any other state, from where the company derives its majority country liquor and IMFL sales.

## Analytical approach: Standalone

## Outlook: Positive

The outlook on the long-term ratings of RKL is 'Positive' on account of CARE Ratings' belief that the financial risk profile of RKL will improve, further backed by increasing revenue from the P&A category, operationalisation of its backward integration capex along with recent price hikes that it has received especially in the non-IMFL category, which will lead to enhanced profitability. Also, the ongoing capex and shift to grain-based alcohol will result in a shift from non-IMFL business into premiumised country liquor brands (UPML), which will result in an overall improvement in the financial risk profile of RKL. The outlook may be revised to 'Stable' in case RKL achieves lower-than-envisaged growth in its operating and financial performance and benefits from the ongoing capex projects.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

**Established brands and efficient supply chain:** RKL, promoted and managed by the 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 the launch of '8PM Whisky'. Since then, the company has launched various successful brands, and at present, RKL is one of the leading players in the Indian liquor industry. RKL benefits from strong brand awareness with a diverse range of products across various price points operating in all segments of popular, prestige, premium and luxury. It has close to 7% market share in the IMFL segment, with Vodka having overall more than 50% market share.
RKL's portfolio currently includes seven millionaire brands, namely, 8PM Whisky, Contessa Rum, Old Admiral Brandy, Magic Moments Vodka, 8 PM Premium Black Whiskey, Morpheus Premium Brandy, and 1965 Spirit of Victory Premium Rum. RKL has continuously launched several brands over the past decade. In FY23, it launched Rampur Indian Single Malt Trigun Cask Whisky, Rampur Indian Single Malt Jugalbandi, Sangam World Malt Whisky, Magic Moment Vodka Cocktail, and After Dark Blue Whisky. However, the revenue of the company appears to be concentrated within Uttar Pradesh.
The company has 42 bottling units spanning across the entire country, of which five are owned and 37 are leased and contract units. RKL's products are sold through over 75,000 retail and 8,000 on-premises outlets. The company has put in place a robust distribution system that enables it 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 the defence segment:** RKL is one of the largest players in the defence market, where its most famous brand is 'Contessa' rum. Two more brands – "Rampur Indian Single Malt" and "Jaisalmer Indian Craft Gin"– have been approved to supply to the canteen store department (CSD) towards the end of FY22. The company derives around 10%-11% of IMFL sales income from the CSD and has close to 20%-25% market share in the said space. There are stringent conditions for entering into the CSD segment, leading to entry barriers for new players.

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

**Strong operational performance, albeit commodity pressure weighing on margins in FY23:** RKL's volume growth year-on-year has been double digit in the P&A category in last 5 years except the COVID-19 year, and on a consolidated basis, including regular category RKL volumes have grown from 19.5 Mn cases in FY18 to 28.23 Mn cases in FY23. RKL's P&A contribution in the total portfolio has increased from 25% volumes in FY18 to 37% in FY23, which as on FY23 is 60% of the revenue for RKL (PY: 52%). RKL has achieved 10% growth in its TOI to ₹3,152.21 crore in FY23 as against ₹2,857.14 crore in FY22. This is largely driven by volume increase across segments at 7% (with P&A growing 20% and RKL rationalising volumes in regular category with degrowth of 15% as a strategy to curtail margin loss). Furthermore, the contribution of IMFL to total revenue contribution in absolute terms increased to 80% in FY22 and FY23 vis-à-vis 78.9% in FY21.
RKL margins historically have been in mid-teens which have moderated due to increase in all the raw material prices with no commensurate increase in selling price especially in the non-IMFL segment. However, w.e.f. April 01, 2023, RKL has received price hike in UP state for its non-IMFL products, and due to deflation in certain commodity prices, the margins are expected to improve from Q1FY24. The PBILDT margins have reduced to 11.67% in FY23 (PY: 14.11%). The impact on IMFL business was to an extent mitigated by price hikes to the tune of 300 bps on an average in FY23 across various states, though commodity inflation had an impact of 800 bps on margins.
Furthermore, the margins are expected to improve in FY24 on account of price hikes received in the non-IMFL segment, backward integration of Sitapur project, strong P&A volume growth with already received price increases in the IMFL segment, higher volume contribution from luxury brands, Rampur Indian Single Malt, and Jaisalmer Indian Craft gin & value engineering in the business. CARE Ratings expects RKL to achieve mid-teen margins in FY24.

**Comfortable financial risk profile:** The overall gearing of the company stood comfortable at 0.35x as on March 31, 2023 as compared with 0.10x as on March 31, 2022. The moderation in the overall gearing is on account of increased term debt for the capex projects of ₹500 crore (₹329 crore drawn in FY23 and balance to be drawn in FY24). Though moderated in comparison to FY22 due to cost inflation, the other coverage indicators remain strong in FY23 with total debt/gross cash accruals (GCA) of 2.72x and PBILDT interest coverage of 16.63x as on March 31, 2023.

**Ongoing capex projects**: In February 2022, RKL announced two capex projects – the conversion of the existing 140 KL per day molasses plant at Rampur, Uttar Pradesh, into a dual feed, i.e., molasses and grain; and the establishment of a new greenfield grain-based distillery at Sitapur, Uttar Pradesh, with the production of up to 400 KL per day distillery with integrated facilities to manufacture extra neutral alcohol (ENA), country liquor (CL), and ethanol.
The Rampur project was completed in January 2023, while the Sitapur project is expected to get operationalised from July 2023. For the Sitapur project - out of the total project cost of ₹676 crore (debt of ₹380 crore and balance internal accruals) RKL has incurred ₹550.18 crore which is funded out of debt of ₹209 crore and balance of ₹341.18 crore through internal accruals. The distillery / process plant is expected to commence commercial production by July 2023.
The completion of the project within the envisaged cost and time and the ability of RKL to derive the envisaged benefits from the projects will be the key monitorable factors.

## Key weaknesses

**Highly regulated industry:** The 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 the transfer of production from one state to another along with the huge burden of duties and taxes. The states control the licenses for production, distributorship, and retailing as well. Furthermore, there is also the risk of the introduction of prohibition laws in states, with negative connotations associated with the liquor industry in India.

**Cyclicality in raw material prices:** ENA 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 molasses, a byproduct, in the sugar manufacturing process, or from grains. Lower-than-anticipated sugarcane production or any sharp rise in the prices of molasses or ENA will have an impact on the company's profitability. The prices of ENA and molasses are likely to increase, with the government encouraging its alternative use in the ethanol blending programme (EBP), offering attractive returns. However, RKL 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 the prices of molasses. The company also has the 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 volatility in the prices of molasses and grains, and the effect of the same has been visible with the gross margin of RKL in the past few quarters.

## **Liquidity**: Strong

The liquidity profile of the company is strong marked by steady cash generation of ₹300-350 crore and free cash bank balance of ₹121.55 crore as on March 31, 2023. Furthermore, the repayments of the term loan will begin from FY24 after a moratorium of 18 months (₹52.85 crore in FY24 and ₹142 crore each till FY27). The average utilisation of working capital limits stood at around 41% for the last 12 months ended March 2023 further providing the liquidity cushion. Also, the company has enhanced its limits by ₹95 crore in May 2023. The operating cycle of the company stood at 77 days in FY23 (PY: 66 days) with a short collection period of 22 days as against average creditor period of 37 days. The average inventory period stood at 92 days in FY23. CARE Ratings expects the cash accrual to be in the range of ₹400 crore in FY24, and this should further increase from FY25. The annual repayments as against these are ₹55 crore in FY24 and ₹150 crore in FY25, which provides sufficient cushion to RKL to be able to fund its working capital requirements or any operational capex requirements.

## Assumptions/Covenants: NA

### Environment, social, and governance (ESG) risks:

The alcohol sector is exposed to the environmental risk, primarily due to the manufacturing process being waste intensive. It also has impact on the society due to aspect related to alcohol abuse, underage consumption as well as risk of regulation by authorities in relation to licensing and sales and higher social tax.

RKL is focussed on creating programmes that actively contribute to and support the social and economic development of the society. The company is committed to community development, enhancing livelihood, promoting education and healthcare, including preventive healthcare, and ensuring environmental sustainability. With water being a scarce natural resource, rainwater harvesting, and ground level recharging is a common theme at all the plants.

Key ESG initiatives by the RKL are as below:

**Environmental-** Enhanced the usage of recycled glass bottles from 4.5% in FY2019 to 18.5% in FY23 for key large brands. Recycled 7,202 MT of post-consumer used plastic waste during FY2023 resulting in a significant sustainability impact.

**Social-** RKL has joined with VYAKTI VIKAS KENDRA INDIA (VVKI), a registered public charitable Trust, to address the water scarcity issue under the Project "RADICO-ART OF LIVING'S Bhujal Shakti Project", thereby ensuring the sustainability of adequate ground water levels in the nearby villages and areas around Rampur District in Uttar Pradesh covering around 451 villages.

**Governance-** The Company's Philosophy on Corporate Governance aims at the attainment of transparency and responsibility in its operations and interactions with all its Stakeholders. As on March 31, 2023, the Board of the Company comprises eight members, consisting of one executive Chairman, two executive directors (Managing Director and Whole-time Director), and five independent directors including an independent woman director.

## Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Fast Moving Consumer Goods | Fast Moving Consumer Goods | Beverages | Breweries & Distilleries |

RKL is engaged in manufacturing rectified spirit (RS), ENA, country liquor, and IMFL. The company has one of the largest distilleries in India, at Rampur, with a molasses-based distilling capacity of 55 KLPD, 100 KLPD grain based distilling capacity and a dual feed capacity of 145 KLPD. The company also has tie-ups with 37 bottling units spread across the country, in addition to its five own bottling units. In Maharashtra, RKL has tied up with its joint venture (JV) – Radico NV (36% shareholding) – for bottling operations. At present, RKL has seven millionaire brands, namely, 8PM Whisky, Contessa Rum, Old Admiral Brandy, Magic Moments Vodka, 8 PM Premium Black Whiskey, Morpheus Premium Brandy, and 1965 Spirit of Victory Premium Rum.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | March 31, 2023 (A) |
|---|---|---|---|
| Total operating income | 2369.75 | 2857.14 | 3152.21 |
| PBILDT | 409.87 | 403.11 | 367.80 |
| PAT | 270.56 | 252.16 | 204.42 |
| Overall gearing (times) | 0.16 | 0.10 | 0.35 |
| Interest coverage (times) | 18.36 | 30.19 | 16.63 |

A: Audited, Prov: Provisional; UA: Unaudited; Note: 'the above results are latest financial results available'

**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**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Commercial Paper-Commercial Paper (Carved out) | | Proposed | proposed | Proposed | 0.00 | Withdrawn |
| Fund-based - LT-Cash Credit | | - | - | - | 745.00 | CARE AA-; Positive |
| Fund-based - LT-Term Loan | | - | - | 31/03/2027 | 500.00 | CARE AA-; Positive |
| Non-fund-based - ST-BG/LC | | - | - | - | 60.00 | CARE A1+ |

## Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Non-fund-based - ST-BG/LC | ST | 60.00 | CARE A1+ | - | 1)CARE A1+ (21-Jun-22)<br><br>2)CARE A1+ (10-May-22) | 1)CARE A1+ (06-Jul-21) | 1)CARE A1+ (07-Jul-20) |
| 2 | Fund-based - LT-Cash Credit | LT | 745.00 | CARE AA-; Positive | - | 1)CARE AA-; Positive (21-Jun-22) | 1)CARE AA-; Positive (06-Jul-21) | 1)CARE AA-; Stable (07-Jul-20) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 2)CARE AA-; Positive (10-May-22) | | |
| 3 | Term Loan-Long Term | LT | - | - | - | - | - | 1)Withdrawn (07-Jul-20) |
| 4 | Commercial Paper-Commercial Paper (Carved out) | ST | - | - | - | 1)CARE A1+ (21-Jun-22)<br><br>2)CARE A1+ (10-May-22) | 1)CARE A1+ (06-Jul-21) | 1)CARE A1+ (07-Jul-20) |
| 5 | Fund-based - LT-Term Loan | LT | 500.00 | CARE AA-; Positive | - | 1)CARE AA-; Positive (21-Jun-22)<br><br>2)CARE AA-; Positive (10-May-22) | - | - |

*Long term/Short term.

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

### Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Commercial Paper-Commercial Paper (Carved out) | Simple |
| 2 | Fund-based - LT-Cash Credit | Simple |
| 3 | Fund-based - LT-Term Loan | Simple |
| 4 | Non-fund-based - ST-BG/LC | Simple |

### Annexure-5: Lender details

| |
|---|
| To view the lender wise details of bank facilities please click here |

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

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Name: Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br>Name: Dinesh Sharma<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-11-4533 3288<br>E-mail: dinesh.sharma@careedge.in | Name: Padmanabh Bhagavath<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3407<br>E-mail: ps.bhagavath@careedge.in<br><br>Name: Pulkit Agarwal<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3505<br>E-mail: pulkit.agarwal@careedge.in<br><br>Name: Ravleen Sethi<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: +91-11-4533 3251<br>E-mail: ravleen.sethi@careedge.in |

**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information,**
**please visit www.careedge.in**