Radico Khaitan Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,300.00 (Enhanced from 1,245.00)	CARE AA; Stable	Revised from CARE AA-; Positive
Short-term bank facilities	60.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to the long-term bank facilities of Radico Khaitan Limited (RKL) considers the significant improvement in its operational profile in FY24 (refers to April 01 to March 31) characterised by growth in the total operating income (TOI) and enhanced profitability. The revenue growth was driven by increase in the contribution from the prestige and above (P&A) category to the net sales and the overall improvement in the sales realisations backed by price hikes taken by the company in the previous year across several states, and continued premiumisation trend. The operating profitability also improved against the previous year, though the commodity inflation persisted with gradual softening expected in FY25. CARE Ratings Limited (CARE Ratings) notes that the company has successfully completed and commissioned its projects within the timelines which will further strengthen the company's operational efficiencies through cost reduction and backward integration. The financial risk profile continues to remain comfortable marked by healthy coverage indicators and strong liquidity position against the debt repayment obligations. Going forward, CARE Ratings expects improvement in the company's financial risk profile as the overall debt reduces and profitability increases.

Ratings continue to factor in the company's established position in the Indian liquor industry sector, its product-mix, strong nation-wide presence in the Indian-made foreign liquor (IMFL) segment, with some concentration in UP, though declining over the years, high entry barriers in the industry, established brands and the company's efficient supply chain management, and the company's experienced promoters.

However, ratings remain constrained by volatility in the raw material prices, which are primarily agricultural commodities, and the company's presence in a highly regulated industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing total income with higher contribution from the P&A category, while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 15% on a sustained basis.
- Improving capital structure with total debt to PBILDT below 1x on a sustained basis.

Negative factors

- Decreasing PBILDT margin below 12% on a sustained basis.
- Total debt to PBILDT deteriorating beyond 2x.
- 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: Consolidated

CARE Ratings has taken a consolidated view of parent, RKL, its subsidiaries and a joint venture (JV), which is Radico NV Distilleries Maharashtra Limited (RNVD, rated 'CARE A+; Stable/ CARE A1') owing to their strategic significance to the parent, common management, and operational linkages. Details of the subsidiaries and JV which have been consolidated as on March 31, 2024, are given in Annexure-6.

Change in Approach: Earlier a Standalone approach was being followed, however, as there is common management and operational linkages between subsidiaries and JV, the approach is being changed to Consolidated.

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

Outlook: Stable

The rating outlook "Stable" indicates the expected sustenance of RKL's market position in the alcobev industry, strong operational metrics, and robust financial risk profile. The company is expected to continue growing its scale of operations while benefiting from its backward integration and further supported by the premiumisation trend in the industry at a healthy operating profitability margin.

Detailed description of key rating drivers:

Key strengths

Established brands and efficient supply chain

RKL has been in liquor manufacturing since 1943 (by the name of Rampur Distillery), being promoted and managed by the Khaitan family. In 1998, RKL entered the branded liquor segment with the launch of '8PM Whisky' and since then, the company has launched various successful brands across diverse price points operating in all segments of luxury, semi-luxury, super premium, premium, deluxe, and regular.

Presently, RKL is one of the leading players in the Indian liquor industry with seven millionaire brands in its product portfolio. The company has a market share of 8% in India; however, it is much higher in the premium segment. It has a 50% market share in the luxury gin market, 59% market share in the overall vodka market, and a leading market share of 64% in the super premium brandy market in India. RKL continuously expands its product portfolio each year through innovating products. In FY24, it launched Happiness in a Bottle Craft Gin, Rampur Indian Single Malt Jugalbandi #3 & 4, Spirit of Victory 1999 Pure Malt Whisky, The Kohinoor Reserve Indian Dark Rum, and Magic Moments Pink Vodka.

The company has three distilleries in Rampur, Uttar Pradesh, three in Aurangabad, Maharashtra (36% JV) and one newly commissioned distillery in Sitapur, Uttar Pradesh, which has almost doubled its capacity from 104.9 million litres in FY23 to 213.3 million litres in FY24 (excluding Aurangabad). RKL has a strong distribution network and a PAN India presence, though some revenue concentration within Uttar Pradesh has been declining over the years. The company operates 41 bottling units out of which 28 units are contracted, eight units are royalty based, and five are owned. In Maharashtra, RKL has tied up with its JV for bottling operations. Its products are sold through over 100,000 retail and 10,000 on-premises outlets. The company has put in place a robust distribution system enabling 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.

Healthy scale of operations supported by backward integration

The company's P&A category contribution in the total portfolio has increased from 25.9% volumes in FY18 to 45.6% in FY24, which now contributes close to 69% of RKL's total revenue against 60% in the previous year. While the volume growth Y-o-Y from the P&A category rose to 20%, a degrowth was registered in the regular category attributable to factors such as strategic curtailing of volumes to ensure brand viability, unstable export geography and industry wide degrowth in certain regions where price hikes were taken. However, as articulated by the management, sales volume from the regular category is expected to recover in FY25 by 3%-4% growth in volumes Y-o-Y.

On an overall basis, the total volume including the regular category has grown from 19.5 million cases in FY18 to 28.7 million cases in FY24. In FY24, IMFL sales realisation also improved by 14% from ₹990.67/case to ₹1,128/case, driven by a combination of price increases taken by the company in 15 states last year and the continued premiumisation trend. The sales realisation from country liquor (CL) also improved in FY24 by 19%, while the sales volumes increased by 27%. Moreover, the net sales contribution from CSD and exports both improved, stood at 11% and 8%, respectively in FY24 against PY: 10% and 6%, respectively, in the previous year.

Additionally, the company commissioned its new greenfield 350-KLPD grain-based distillery at Sitapur, Uttar Pradesh, in Q2FY24, which doubled its total capacity to 21.31 crore litres. With the commissioning of this plant, RKL has secured its long-term extra neutral alcohol (ENA) supplies resulting in quality ENA and de-risk its dependence on the distillery in Rampur. The cost savings derived from the Sitapur plant is expected to increase in the medium term as the commodity inflation decreases. The excess produce from the Sitapur plant will be sold outside to the OMCs which will gradually come down as the internal consumption increases.

These factors have contributed in improving the company's TOI by 34% from ₹3,099.14 crore in FY23 to ₹4,158.22 crore in FY24. The PBILDT margin also improved to 12.20% against 11.57% in FY23 with an absolute PBILDT growth of 41% Y-o-Y, albeit some commodity pressure persisted. Going forward in FY25, CARE Ratings expects an improvement in the PBILDT margin by ~100 bps driven by softening in the raw material prices, cost benefits derived from the new plant, higher volume contribution from luxury brands, and continued growth of the P&A category.

Strong position in the defence segment

RKL is the largest player in the defence market, where its most famous brand is "Contessa" rum. The brands, "Rampur Indian Single Malt" and "Jaisalmer Indian Craft Gin" were approved to supply to the canteen store department (CSD) towards the end of FY22 and one more brand, "Royal Ranthambore", is expected to be supplied from H2FY25 onwards. The company derived around 11% of its net sales in the IMFL category income from the CSD in FY24 and has the highest market share of 20-25% in the said space. There are stringent conditions for entering the CSD segment, leading to high 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, thus providing a competitive advantage to the existing players.

Comfortable financial risk profile
Despite the project-related debt loaded on the balance sheet of RKL in FY23, the company's debt metrics is strong and remains comfortable. The company's overall gearing stood at 0.34x as on March 31, 2024, and March 31, 2023, as against 0.10x as on March 31, 2022. This moderation in the overall gearing against FY22 is considering increased term debt for the capex projects of ₹500 crore, which was already envisaged, and the projects have also been successfully commissioned per the timelines. The other solvency indicators were comfortable marked by net debt/PBILDT at 1.42x (PY: 1.74x) and interest coverage at 8.50x (PY: 15.96x) in FY24. Going forward, CARE Ratings expects the solvency indicators to improve further as the incremental debt has already been incurred.

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 and the huge burden of duties and taxes. The states also control the licenses for production, distributorship, and retailing. There is also the risk of the introduction of prohibition laws in states, with negative connotations associated with the liquor industry in India. Further, the prices are also regulated by the state governments and thus, it is difficult for players to pass on the increase in any input costs to the end consumers.

Volatility in raw material prices
Volatility associated with RKL's key raw materials comprising broken rice, glass, and ENA continued particularly in FY24. ENA is produced from the molasses, a byproduct, in the sugar manufacturing process, or from grains. The prices of ENA and molasses increased with the government encouraging its alternative use in the ethanol blending programme (EBP), offering enhanced returns. Additionally, the broken rice inflation, induced by the uncertainty surrounding the continuing flow for domestic consumption and the consequent halt of rice supply by FCI to grain-based distilleries for ethanol production, further strained the gross margins. However, price correction in these raw materials is anticipated in the medium term as visible from the start of Q1FY25. The company also has the advantage of backward-integrated distillation capacities, insulating the company to a certain extent from any significant movement in the raw material prices.

Liquidity: Strong
The company's liquidity profile remains strong marked by steady gross cash accruals in the range of ₹350-400 crore and free cash balance of ₹86 crore of the total cash and cash equivalents amounting to ₹101 crore as on March 31, 2024. Against these, the debt repayment obligation in FY25 and FY26 amounts to ₹136 crore each, which is expected to be met comfortably. There is no major capex planned for the company. The average utilisation of working capital limits stood at around 51% for the last 12 months ended March 2024, providing sufficient liquidity cushion. The operating cycle stood at 79 days in FY24 (PY: 79 days) with a short collection period of 21 days as against average creditor period of 27 days. The average inventory period stood at 85 days in FY24.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks
The alcohol sector has a moderate environmental impact, primarily driven by its raw material sourcing strategies and water intensive processes. It also has a moderate social impact due to the aspect related to alcohol abuse, underage consumption and risk of government intervention including restriction on sales, regulation of marketing practices, and higher tax, among others.
RKL has continuously focused on mitigating its environmental and social risks. CARE Ratings believes RKL's commitment to ESG will support its strong credit profile.

Key ESG initiatives by the RKL are as below:
Environmental- Enhanced the usage of recycled glass bottles from 4.5% in FY19 to 18.5% in FY23 for key large brands. Recycled 7,202 MT of post-consumer used plastic waste in FY23 resulting in a significant sustainability impact.
Conservation of water in the usage of concrete, biodiversity conservation, and increased usage of blended cement as sustainable building materials.

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 governance structure is characterised by majority of the board members being independent directors, the board of the company comprising eight members, consists of one executive Chairman, two executive directors (Managing Director and Whole-time Director), and five independent directors, including an Independent Woman Director as on March 31, 2024.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Consolidation]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

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 IMFL, rectified spirit (RS), ENA, and country liquor. The Rampur distillery of the company has a molasses-based distilling capacity of 55 KLPD, grain-based distilling capacity of 100 KLPD, and a dual feed capacity of 145 KLPD. In FY24, it completed the commissioning of its 350-KLPD distillery at Sitapur with which the company has doubled its capacity to 213.3 milion litres from 104.4 million litres. The company operates 41 bottling units out of which 28 units are contracted, eight units are royalty based, while five are owned, spread across the country. In Maharashtra, RKL has tied up with its JV – Radico NV (36% shareholding) – for bottling operations.
At present, RKL has seven millionaire brands, including 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, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,857.14	3,099.14	4,158.22
PBILDT	403.09	358.71	507.15
PAT	263.23	220.35	262.17
Overall gearing (times)	0.10	0.34	0.34
Interest coverage (times)	30.18	15.96	8.50

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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
Fund-based - LT-Cash credit	-	-	-	-	800.00	CARE AA; Stable
Fund-based - LT-Term loan	-	-	-	31/03/2027	500.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	60.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1+	-	1)CARE A1+ (20-Jun-23)	1)CARE A1+ (21-Jun-22) 2)CARE A1+ (10-May-22)	1)CARE A1+ (06-Jul-21)
2	Fund-based - LT-Cash credit	LT	800.00	CARE AA; Stable	-	1)CARE AA-; Positive (20-Jun-23)	1)CARE AA-; Positive (21-Jun-22) 2)CARE AA-; Positive (10-May-22)	1)CARE AA-; Positive (06-Jul-21)
3	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	1)Withdrawn (20-Jun-23)	1)CARE A1+ (21-Jun-22)	1)CARE A1+ (06-Jul-21)

							2)CARE A1+ (10-May-22)	
4	Fund-based - LT-Term loan	LT	500.00	CARE AA; Stable	-	1)CARE AA-; Positive (20-Jun-23)	1)CARE AA-; Positive (21-Jun-22) 2)CARE AA-; Positive (10-May-22)	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Radico NV Distilleries Maharashtra Limited (JV, 36% equity stake)	Proportionate	Strategic importance to the parent
2.	Radico Spiritzs India Private Limited	Full	
3.	Accomreal Builders Private Limited	Full	
4.	Compaqt Era Builders Private Limited	Full	
5.	Destihomz Buildwell Private Limited	Full	
6.	Equibuild Realtors Private Limited	Full	
7.	Proprent Era Estates Private Limited	Full	
8.	Binayah Builders Private Limited	Full	
9.	Firstcode Reality Private Limited	Full	

Note on complexity levels of 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.

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About us:
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