

Radico Khaitan Limited

June 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,150.00	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed
Short-term bank facilities	60.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	1,210.00 (₹ One thousand two hundred ten crore only)		
Commercial paper (Carved out)*	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	100.00 (₹ One hundred crore only)		

Details of instruments/facilities in Annexure-1.

*Carved out of working capital limits of the company.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and commercial paper issue of Radico Khaitan Limited (RKL) continue to derive strength from the experienced promoters, RKL's 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 comfortable profitability and capital structure. Going forward, with the upcoming debt for the new project, although the overall gearing is expected to increase, it is expected to remain comfortable. The completion of the capex within the envisaged cost and time and the availability and procurement of feedstock for the enhanced capacity and RKL's ability to derive the envisaged benefits from the said capex are the key ratings monitorable.

The ratings continue to remain constrained by the cyclical nature 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.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the total income over ₹3,000 crore, with higher contribution from the prestige and above (P&A) category, while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 16% on a sustained basis.
- The total debt to PBILDT below 1x and maintaining a comfortable capital structure, with overall gearing below 0.3x.
- Successful completion of the capex and the ability to derive the envisaged benefits, with return on capital employed (ROCE) maintained at 20x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decrease in the total income below ₹2,000 crore, with a PBILDT margin below 12%.
- Any time and cost overrun in the capex being undertaken that affects the liquidity and financial profile of RKL adversely.
- Any unfavourable change in the liquor policy in Uttar Pradesh, from where the company derives majority of its country liquor and IMFL sales.

Outlook: Positive

The outlook on the long-term ratings of RKL continues to remain 'Positive' on account of CARE Ratings Limited's (CARE Ratings') belief that the financial risk profile of RKL will improve, further backed by increasing revenue from the P&A 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.

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

The outlook may be revised to 'Stable' in case RKL achieves lower-than-envisaged growth in its financial performance and benefits from the ongoing capex projects.

Key rating drivers

Key rating strengths

Experienced promoters and reputed name: 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.

Comfortable financial risk profile: RKL has achieved 21% growth in its TOI to ₹2,857.14 crore in FY22 (refers to the period April 01 to March 31) as against ₹2,369.75 crore in FY21. Furthermore, the contribution of IMFL to the total revenue contribution increased to 80.4% in FY22 vis-à-vis 78.9% in FY21. However, the PBILDT margins have reduced to 14.11% in FY22 (PY: 17.30%). The impact was mainly due to the impact on gross margins, which decreased to 44% in FY22 from 50% in FY21 on account of commodity inflation. The impact of the cost push has been much severe in the non-IMFL business. The raw materials, including glass and corrugated boxes are witnessing an inflationary trend. Despite a significant increase in the raw material prices, gross margin for the IMFL business was impacted moderately owing to a favourable premium product mix in the IMFL portfolio. The overall gearing of the company stood comfortable and improved to 0.10x as on March 31, 2022, as compared with 0.16x as on March 31, 2021, with reduction in working capital borrowings. The PBILDT interest coverage also improved to 30.19x in FY22 (PY: 18.36x). The total debt to gross cash accruals (GCA) remains comfortable at 0.64x as on March 31, 2022 (PY: 0.88x). Going forward, with the upcoming debt for the new project, the gearing and total debt to EBITDA is expected to increase from these levels. However, they are expected to remain comfortable with peak gearing and total debt to EBITDA below 0.4x and 1.5x, respectively.

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, ie, 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), IMFL and ethanol. The project will also have an annual bottling capacity to produce 3 million cases of IMFL and 4 million cases of country liquor, which will be expanded based on future requirements.

The capex is announced mainly due to the recent change in the Uttar Pradesh State Excise Policy, which has mandated only grain-based alcohol in the manufacture of IMFL (other than rum) and the 42.8% category of country liquor/UPML (which comprises 25% of the overall country liquor industry).

Also, as per the management, with the push from the government towards the ethanol blending programme (EBP), the availability of molasses will be constrained. Besides, to secure the raw material requirements for quality ENA to be used in its premium brands, there was a need to convert the molasses plant to dual feed and to enhance its distillation capacity.

The total cost of both these projects is estimated at ₹702.00 crore, which is projected to be funded in a debt-equity ratio of 2.48:1. The entire debt of ₹500 crore is tied up and these loans have a door-to-door tenure of five years with a moratorium of 18-20 months. As on May 31, 2022, around ₹130 crore is deployed in the capex projects, which is funded majorly through internal accruals. Furthermore, all the major approvals and pollution checks are completed and orders for major machinery procurement have been placed.

The completion of these projects 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.

Established brands and efficient supply chain: RKL's portfolio, at present, includes five millionaire brands, namely, '8PM Whisky', 'Contessa Rum', 'Old Admiral Brandy', 'Magic Moments Vodka' and '8 PM Premium Black Whiskey'. This apart, it distributes other successful brands like 'Whytehall' whisky and the 'Brihans' range of brands acquired inorganically. RKL has continuously launched several brands over the past decade. In FY22, it launched Magic Moments Dazzle Vodka and Royal Ranthambore Blended Malt Scotch. However, the revenue of the company appears to be concentrated within Uttar Pradesh, accounting for around 27% of IMFL sales in FY22.

The company has 28 bottling units spanning across the entire country, of which five are owned and 23 are contract-bottling 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 – 'After Dark Whisky' and 'Morpheus Brandy' – have been approved to supply to the canteen store department (CSD). The company derives around 10%-11% of IMFL sales income from the CSD. 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.

Key rating 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 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. However, the company maintains a sizeable inventory of molasses, which insulates it against short- and medium-term fluctuations in the prices of molasses.

Industry prospects: ENA mainly finds application in potable alcohol manufacturing. However, 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 US\$ 35 billion. Furthermore, India produces 2.7 billion litre of ENA, of which 90% of the produce is utilised for manufacturing potable alcohol. The key demand drivers of the industry have been growing disposable incomes, increasing rural consumption, rapid urbanisation, greater acceptance of social drinking, and a higher proportion of the young population entering the drinking age, which has a 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 strong, marked by a steady cash generation of ₹300-350 crore and free cash bank balance and liquid investments of around ₹99.99 crore, as on March 31, 2022. As on March 31, 2022, RKL has long term loan of ~₹5 crore. Furthermore, the repayments of the new term loan will begin from FY24, after a moratorium of 18 months (₹71 crore in FY24 and ₹142 crore each, until FY27). The average utilisation of the working capital limits stood at around 30.51% for the last 12 months ended April 2022, further providing liquidity cushion.

The operating cycle of the company stood at 66 days in FY22, with a short collection period of 21 days, as against the average creditor period of 42 days. The average inventory period stood at 87 days in FY22.

Analytical approach

Standalone

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE Ratings' policy on default recognition](#)

[Rating methodology – Manufacturing companies](#)

[CARE Ratings' methodology for short-term instruments](#)

[Liquidity analysis of non-financial sector entities](#)

[CARE Ratings' methodology for financial ratios \(Non-financial sector\)](#)

About the company

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 75 million litre per annum and a grain-based distillation capacity of 33 million litre 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 joint venture (JV) – Radico NV (36% shareholding) – for bottling operations. The company has three distilleries and one JV – Radico NV Distilleries, Maharashtra – with a total of 159.50 million litre distillation capacity. The company launched 10 new brands over the past decade. Of these, nine brands are in the premium category. At present, RKL has five millionaire brands, in terms of the number of cases sold in its portfolios – ‘8PM Whisky’, ‘Contessa Rum’, ‘Old Admiral Brandy’, ‘Magic Moments Vodka’ and ‘8 PM Premium Black Whiskey’.

Brief Financials (₹ crore)	FY20 (A)	FY21 (A)	FY22 (A)
TOI	2449.63	2369.75	2857.14
PBILD	372.88	409.87	403.11
PAT	227.50	270.56	252.16
Overall gearing (times)	0.27	0.16	0.10
Interest coverage (times)	11.68	18.36	30.19

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	60.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	650.00	CARE AA-; Positive
Fund-based - LT-Term Loan		-	-	March 2027	500.00	CARE AA-; Positive
Commercial paper- Commercial paper (Carved out)		-	-	7-364 days	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 (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1+	1)CARE A1+ (10-May-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (CWD) (05-Jul-19)

2	Fund-based - LT-Cash Credit	LT	650.00	CARE AA-; Positive	1)CARE AA-; Positive (10-May-22)	1)CARE AA-; Positive (06-Jul-21)	1)CARE AA-; Stable (07-Jul-20)	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA-(CWD) (05-Jul-19)
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)
4	Commercial paper-Commercial paper (Carved out)	ST	100.00	CARE A1+	1)CARE A1+ (10-May-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (CWD) (05-Jul-19)
5	Fund-based - LT-Term loan	LT	500.00	CARE AA-; Positive	1)CARE AA-; Positive (10-May-22)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not applicable

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

Sr. No	Name of 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

Note on complexity levels of the rated instrument: 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.

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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