Radico Khaitan Limited

July 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	650.00	**CARE AA- (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	60.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total facilities	**710.00 (Rs. Seven hundred crore and ten lakhs only)**		
Commercial Paper Issue^	**100.00**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1
^ Carved out of working capital limits of the company

Detailed Rationale & Key Rating Drivers

The ratings of Radico Khaitan Limited (RKL) takes into account the continuous improvement in its financial risk profile characterized by stable profitability, strong capital structure and improved liquidity position. They are supported by a sustained revenue growth through the years on the back of RKL's gain in overall market share and its thrust on premiumization. The ratings takes into account RKL's strong nation-wide presence in the Indian made foreign liquor (IMFL) segment, established brands, besides consistent growth in the scale of operations. The ratings also factors in the company's strong parentage, continued benefits of efficiency measures undertaken by the company and the softening of the raw material prices. CARE believes RKL will continue to benefit from its established brand equity and favourable long term volume outlook for the spirits industry combined with changing consumer preferences towards premium brands. The ratings, however, continue to remain constrained by the cyclicality in prices of its principal raw materials and the company's presence in a highly regulated industry which exposes it to changes in state policies regarding pricing and sales of country liquor and IMFL.

Rating Sensitivities

Positive Factors:

- Increase in TOI by more than 10% with PBILDT margin and PAT margin exceeding 17% and 10% respectively, on a sustained basis
- Improvement in capital structure with overall gearing of less than 0.2x

Negative Factors:

- Overall gearing of more than 0.7x
- Decline in profitability with PBILDT and PAT margin of less than 13% and 10% respectively

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial risk profile: During FY20, the company registered y-o-y growth of 16.05% in FY20 to Rs. 2,458.20 cr as against Rs. 2,118.31 cr in FY19. However, the PBILDT margins moderated from 17.09% in FY19 to 15.52% in FY20. The company's profitability is impacted due to increase in raw material prices (ENA), worsened to an extent by the impact of lockdown in the country on outbreak of COVID-19. However, finance cost during the year declined by 11% to Rs. 31.91 crore on account of repayment of borrowings. Consequently, PAT margins improved from 8.88% in FY19 to 9.25% in FY20.
The overall gearing of the company remained stable at 0.27x as on March 31, 2020. However, the debt/equity ratio improved to 0.00x as on March 31, 2020 (0.03x as on March 31, 2019) on the back of repayment of all the term liabilities and increased net-worth.
The company has also adopted various cost optimization measures like rationalization of bottle supplies and diversification of supplier base to control costs. These measures along with the company's strategic focus on premium segments are further likely to lead to an improvement in the profitability margins going forward.

Experienced promoters & 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 company has launched various successful brands and currently RKL is one of

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

the leading players in the Indian liquor industry. RKL has a distribution agreement with Suntory (Japan) and E.& J.Gallo Winery (USA) for marketing its premium brands in Indian Market.

Established brands with pan India presence: RKL's portfolio currently includes four millionaire brands namely 8PM whisky, Contessa Rum, Old Admiral Brandy and Magic Moments Vodka. Besides, it distributes other successful brands like Whytehall whisky and Brihans range of brands acquired inorganically. In June 2010, RKL launched new brands 'After Dark' and 'Eagles Dare' whisky and in May 2012, launched Florence, a super-premium brandy, in the state of Tamil Nadu. In FY13, it launched a super-premium vodka brand, Verve along with its flavoured version on a pan-India basis. Continuing with its trend of launching newer brands, RKL launched a new readymade drink Electra during FY15 and three new brands in FY17 under the aegis of Pluton premium bay rum, Rampur single malt and Regal Talons Premium whisky.Recently, RKL launched Jaisalmer Indian Craft Gin, a product in the luxury segment. This brand is positioned in the fast-growing white spirits segment globally. Further in FY19 launched premium variant of 8PM whisky – 8PM Premium Black and a superior variant of Morpheus brandy – Morpheus Blue.

Strong hold 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). 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 licences, thereby providing a competitive advantage to existing players. However, the states have been reasonably flexible in granting expansion of existing capacity to meet demands. This acts in favour of incumbents as new players find it difficult to start.

Industry Prospects
Radico Khaitan is extremely well positioned with the market leading share with its Magic Moments brand. Growing disposable incomes, increasing rural consumption, greater acceptance of social drinking and a higher proportion of the young population entering the drinking age, are all factors that make India one of top markets for global spirit companies. These demographics also support the case for the growth of aspirational brands and premium products. Consumer needs and preferences are evolving and they are now more focused on quality, convenience, value proposition and personalization to suit their styles and values. 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. The youth segment is expected to redefine consumption growth given their access and exposure to mobiles and the internet. This consumer group is more focused on the customer experience offered by a product, in particular its brand and design.
The COVID-19 cess levied in varying degrees by revenue-sapped states has taken a toll on alcohol makers -- stretching their working capital and eating into cash flow. In contrast to the early trends when long queues outside shops may have given an impression that the alcohol industry would remain an outlier in a moribund economy, industry executives say that 'unrealistic' tax on alcohol has done more damage to the industry than the pandemic.

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 licenses for production, distributorship and retailing also.

Cyclicality in raw material prices: ENA (Extra Neutral Alcohol) constitutes one of the major raw materials required for the company's products. Considering ENA is an agro-based commodity, raw material price volatility remains a key risk. 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 grains or of ENA could have an impact on the company's profitability. ENA prices may also increase due its alternative uses, especially in ethanol blending and a more attractive price offered by the petrochemical industry. However, the company's capability to shift to a grain-based distillery insulates it against any significant increase in prices of molasses. The margins are highly susceptible to the volatility in the price of molasses and grains. Raw material prices are governed by various factors including the supply of molasses and grains which is in turn dependent upon production, government regulations, demand from other sectors like biodiesel, etc. However, the company maintains a sizable inventory of molasses which insulates it against short and medium term fluctuations in molasses prices. The company has a capacity to store three months' equivalent of its molasses requirements. Further, RKL has flexibility to shift its production between grains and molasses with change in prices of each.

Going forward, the spurt in nationwide production of sanitizers in the aftermath of the Covid-19 outbreak is expected to stimulate demand for ENA, thereby raising its prices further. Notwithstanding RKL's partial integration into captive ENA production, it would remain susceptible to such price rises for the residual portion of its ENA requirements. While the currently depressed crude prices have ensured lesser ENA is being diverted for ethanol blending, any firming up of crude prices might reinvigorate such demand, thereby pushing RKL's raw material costs.

Liquidity Analysis

Liquidity: Strong - RKL has a strong liquidity position with healthy cash accruals and moderate working capital cycle. The liquidity profile is further supported by the availability of sufficient bank limits for the company's working capital requirements. The company continues to maintain a moderate working capital cycle of around 60 days as it needs to maintain inventory at various warehouses and provides advances to bottlers to fund operations for its bottling units. For the company's own requirements along with the aforementioned loans, the company has available adequate working capital lines, which the company used at an average utilization level of 75% for 11 months ended April 2020. This provides sufficient liquidity buffer for the company's funds requirements. Additionally, RKL maintained a comfortable current ratio of 1.68 times as on March 31, 2020.

Analytical approach: Standalone

Applicable criteria

- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Rating Methodology-Manufacturing Companies
- Criteria for Short-term Instruments
- CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

RKL is engaged in manufacturing of 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 million litres per annum and grain-based distillation capacity of 27 million 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 – two distilleries) with total capacity of 157 million liters. RKL has developed its entire brand portfolio over the years. 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)	FY19 (A)	FY20 (A)
Total operating income	2118.31	2458.20
PBILDT	362.01	381.46
PAT	188.06	227.50
Overall gearing (times)	0.26	0.27
Interest coverage (times)	10.09	11.95

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

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-; Stable
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1+	-	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (05-Jul-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (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-; Stable	-	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA- (Under Credit watch with Developing Implications) (05-Jul-19)	1)CARE AA- (Under Credit watch with Developing Implications) (01-Mar-19) 2)CARE AA-; Stable (17-Sep-18) 3)CARE A; Stable (06-Apr-18)	-
3.	Term Loan-Long Term	LT	-	-	-	1)CARE AA-; Stable (13-Aug-19) 2)CARE AA- (Under Credit watch with Developing Implications) (05-Jul-19)	1)CARE AA- (Under Credit watch with Developing Implications) (01-Mar-19) 2)CARE AA-; Stable (17-Sep-18) 3)CARE A; Stable (06-Apr-18)	-
4.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (13-Aug-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (05-Jul-19)	1)CARE A1+ (Under Credit watch with Developing Implications) (01-Mar-19) 2)CARE A1+ (25-Dec-18) 3)CARE A1+ (11-Sep-18) 4)CARE A1 (06-Apr-18)	-

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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