

Radico Khaitan Limited

December 25, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper Issue [^]	100.00 (enhanced from 50.00)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

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

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the enhanced CP instrument of Radico Khaitan Limited (RKL) takes into account the improved financial risk profile characterized by enhanced profitability, strengthening of its capital structure and improved liquidity position. This was supported by healthy revenue growth during FY18 (refers to period from April 01 to March 31) on the back of RKL's gain in market share. The ratings reaffirmation also takes into account RKL's strong nation-wide presence in the Indian Made Foreign Liquor (IMFL) segment, established brands along with consistent growth in scale of operations. The rating also factors in the strong parentage, price increases granted by the various state governments, together with continued benefits of efficiency measures undertaken by the company & 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 cyclicity in raw material prices 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 & IMFL.

Going ahead, with no major capex being envisaged, the ability of the company to maintain its enhanced profitability margins and its comfortable capital structure amidst highly regulated industry environment shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial risk profile: The financial risk profile of RKL is marked by large scale of operations, enhanced profitability margins and interest coverage along with improved capital structure. During FY18 (refers to the period April 1 to March 31), company registered net sales of Rs.1809.85 crore, a growth of 7% over FY17. RKL's continuous focus on prestige & above category has supported its margins in FY18 and is also likely to derive higher margins for the company going forward, with increase in its scale of operations as PBILDT margin in prestige & above category is higher than regular category. The PBILDT margins improved significantly from 13.71% in FY17 to 16.37% in FY18. The Company's profitability improvement was driven by a combination of recent price increases, premiumization, softening of raw material prices and the management's ongoing cost optimization initiatives. Finance cost during the year declined by 15% to Rs. 68.60 Crore on account of repayment of borrowings and reduction in interest rates. The overall gearing of the company significantly improved from 1.01x as on March 31, 2016 to at 0.78x as on March 31, 2017 & further to 0.52x as on March 31, 2018, on the back of repayment of term liabilities and increased net-worth. Better profitability during the period improved the PBILDT interest coverage to 4.32x in FY18 (compared to P.Y: 2.87x) and further to 8.57x as on June 30, 2018. During H1FY19, the company had achieved a total income of ~Rs.1041 crore (H1FY18: ~Rs.870 crore) registering a 20% growth. Further the PBILDT margins have improved to 18.23% in H1FY19 as compared to 15.88% in H1FY18. The overall gearing improved to 0.33x as on Sep 30, 2018. Going ahead, with no major capex being envisaged, the capital structure of the company is expected to remain comfortable.

Strong liquidity: The liquidity profile of RKL in FY18 was supported by adequate cash accruals. The company continues to maintain a moderate working capital cycle of 70-80 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 61% for 12 months ended Nov 2018. This provides sufficient liquidity buffer for the company's funds requirements. Additionally, RKL maintained a comfortable current ratio of 1.28 times as on March 31, 2018. RKL also has free cash & bank balance of Rs 31.50 crore as on Nov 30, 2018.

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

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 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. Apart from this 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 super premium vodka, Verve along with its flavoured version on 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 Q1FY19 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 licenses thus 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.

Spirits Industry in India: Positive Outlook: After a difficult FY2017, FY18 had a slow start being impacted by demonetization tailwinds, state level prohibitions, a national highway liquor ban and the operational challenges with the implementation of GST. However, in H2FY18 experienced a significantly improved operating environment resulting in a robust industry performance. The Supreme Court relaxed the national highway liquor ban to take city limits out of its purview. While Kerala relaxed its prohibition to allow spirits in three and four star hotels, Bihar allowed spirit manufacturers to export products which were previously left unsold due to the ban. A number of key liquor consuming states have provided price increases thereby improving margins for the manufacturers. Furthermore, recent policy updates led to the change in route-to-market for a few states such as West Bengal moving to a government owned and controlled distribution model. The state of Uttar Pradesh recently announced a new excise policy which is aimed at transparency and improving the operating environment. 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.

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) 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. ENA prices may also increase due its alternative use 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. Also

molasses/ENA prices were higher in FY17 due to drought in Maharashtra and the industry had to take a hit. Due to excess sugar production in FY18, prices of molasses and in turn ENA were soft. 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 3 months' equivalent of its molasses requirements. Further, RKL has flexibility to shift its production between grains and molasses with change in prices of each.

Analytical approach:

Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology for manufacturing companies](#)

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 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 subsidiary 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 mn 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)	FY17 (A)	FY18 (A)
Total operating income	1690.05	1809.85
PBILDT	231.69	296.36
PAT	80.17	123.96
Overall gearing (times)	0.78	0.52
Interest coverage (times)	2.87	4.32

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

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.

Analyst Contact:

Name: Mr Gaurav Dixit

Tel: 011-45333235

Mobile: 9717070079

Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Commercial Paper	-	-	7 to 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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1+	1)CARE A1+ (17-Sep-18) 2)CARE A1 (06-Apr-18)	-	1)CARE A1 (23-Jan-17)	1)CARE A1+ (03-Nov-15) 2)CARE A1+ (26-Oct-15)
2.	Fund-based-Long Term	LT	525.00	CARE AA-; Stable	1)CARE AA-; Stable (17-Sep-18) 2)CARE A; Stable (06-Apr-18)	-	1)CARE A; Stable (23-Jan-17)	1)CARE A+ (03-Nov-15) 2)CARE A+ (26-Oct-15)
3.	Term Loan-Long Term	LT	43.57	CARE AA-; Stable	1)CARE AA-; Stable (17-Sep-18) 2)CARE A; Stable (06-Apr-18)	-	1)CARE A; Stable (23-Jan-17)	1)CARE A+ (03-Nov-15) 2)CARE A+ (26-Oct-15)
4.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (11-Sep-18) 2)CARE A1 (06-Apr-18)	-	1)CARE A1 (23-Jan-17)	1)CARE A1+ (03-Nov-15) 2)CARE A1+ (26-Oct-15)

CONTACT**Head Office Mumbai**

Ms. MeenalSikchi
 Cell: + 9198190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 9198196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. RashmiNarvankar
 Cell: + 9199675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 9198209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, PashupatiAkshatHeights, Plot No. D-91,
 Madho Singh Road, NearCollectorateCircle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91-0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride KumarSenate,
 Plot No. 970, Bhamburda, SenapatiBapat Road,
 ShivajiNagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com