WORKING CAPITAL MANAGEMENT

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SUBJECT: CORPORATE FINANCE

NARSEE MONJEE INSTITUTE OF MANAGEMENT STUDIES

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INTRODUCTION

The breweries and distilleries industry in India is an evolving powerhouse, reflecting the dynamic and ever-changing preferences of consumers. As one of the world's fastest-growing alcoholic beverage markets, it commands a market value estimated at a staggering USD 52.5 billion. In this comprehensive report, we delve deep into the intricacies of this thriving sector, focusing on industry giants United Spirits Ltd., United Breweries, and Radico Khaitan. Our investigation explores the critical dimensions that define this industry and its impact on these prominent companies.

Our report starts by unravelling the intricate workings of working capital management (WCM). We delve into the types, amounts, and critical components that make up WCM, all while scrutinizing the trends that have shaped its management within the industry.

Moving forward, we conduct a meticulous financial analysis, deciphering crucial ratios that underpin the financial health of these companies. Our assessment extends to profitability and liquidity, offering profound insights into their influence on shareholder wealth.

The report then takes a closer look at how the breweries and distilleries industry, including our featured companies, navigated through the unprecedented challenges posed by the COVID-19 pandemic. We analysed their WCM strategies and outcomes during these turbulent times.

Our exploration also includes an examination of both historical disruptors that have significantly impacted the industry and a forward-looking gaze into the forces that will likely reshape the landscape.

Furthermore, we shed light on the intricate interplay between corporate governance, risk management, and investments within these companies. We uncover how they align their strategies to maintain efficient WCM while effectively mitigating risks.

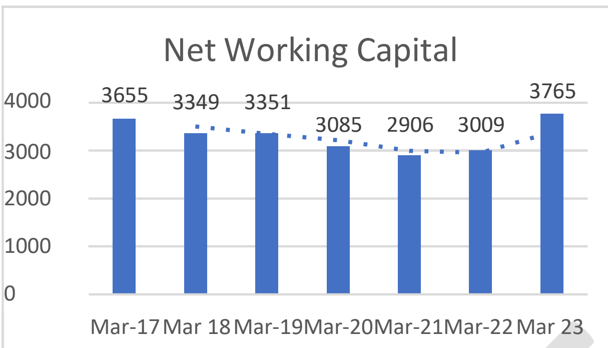
Finally, our comprehensive WCM efficiency synopsis for United Spirits Ltd., United Breweries, and Radico Khaitan offer key operational insights to help understand the WCM intricacies to global disruptions' impact, encapsulating its resilience and adaptability in a dynamic world.

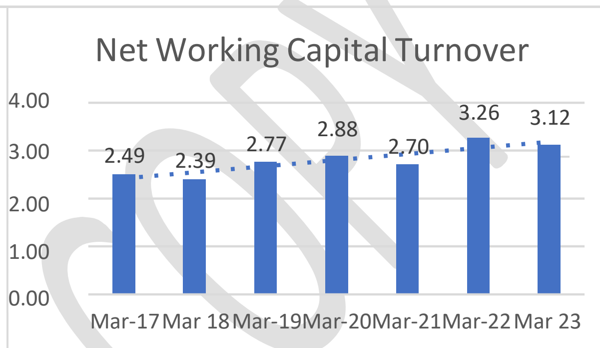
Our ultimate aim is to provide a holistic view of the breweries and distilleries industry in India and offer a thorough understanding of the dynamics that drive these iconic companies. From working capital intricacies to the impacts of global disruptions, this report promises to uncover the essence of an industry that continues to thrive and adapt in an ever-changing world.

1. INTRODUCTION – UNITED SPIRITS

United Spirits Limited is the largest alcohol beverage company in India and is also among the largest consumer goods companies. It is a subsidiary of Diageo plc; it manufactures and sells alcoholic beverages. The company's product portfolio comprises Indian-made foreign liquor (IMFL) whisky, brandy, rum, vodka, gin and wine. United Spirits markets these products under McDowell's No.1, Royal Challenge, Signature and Antiquity brand names. It imports, manufactures and markets Diageo's iconic brands such as Johnnie Walker, VAT 69, Black & White, Smirnoff and Cîroc in India. United Spirits is headquartered in Bengaluru, Karnataka, India.

2. WORKING CAPITAL

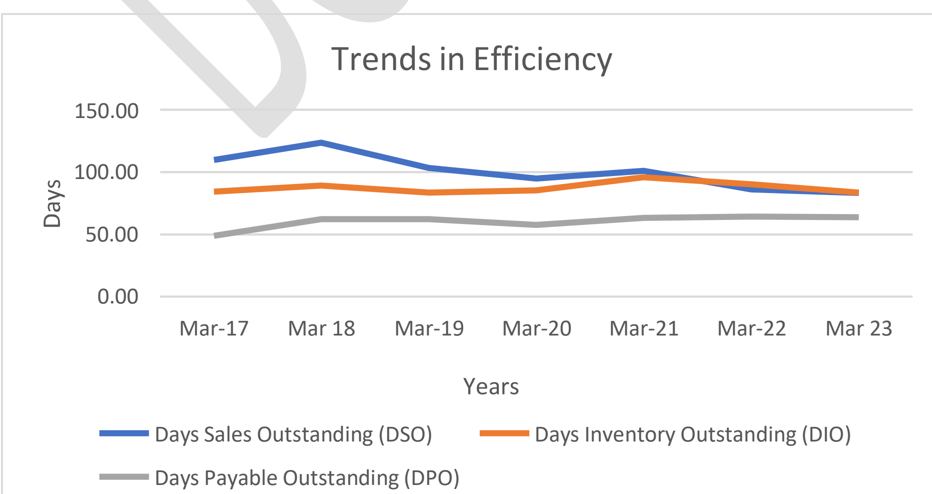




The net working capital of the company remained relatively stable over the years, except for a noticeable decline that commenced in 2020 and continued into 2021 when it decreased from 3,085 to 2,906. This decline can be attributed to a surge in inventories, potentially a result of the company's challenges in efficiently making sales. These challenges arose due to disruptions in the supply and distribution channels caused by the COVID-19 pandemic. The pandemic led to restrictions on transportation and other activities, which impacted the company's ability to manage its inventory effectively and maintain its typical working capital levels. It is crucial to recognize that the company demonstrated a swift recovery in 2023, as evidenced by the substantial increase in net working capital. This resurgence suggests that the company has successfully adapted to the changing business landscape and has taken measures to bolster its financial position.

United Spirits' Net Working Capital Turnover has shown a generally positive trend over the years, indicating efficient utilization of working capital. It has increased from 2.49 in March 2017 to 3.12 in March 2023, with occasional fluctuations in between. This improvement suggests that the company has been more effective in generating revenue from its working capital during this period, reflecting better operational efficiency.

Trends in Efficiency



- **Days Sales Outstanding (DSO)**

The DSO for United Spirits Limited has shown a consistent and positive trend of improvement over the years, with a brief interruption in 2020, due to pandemic-related challenges. From March 2021 to March 2023, there was a significant improvement in DSO, reaching its lowest point in March 2023 at 83.13 days. This indicates that the company has effectively managed its receivables, potentially by implementing more efficient credit and collection processes.

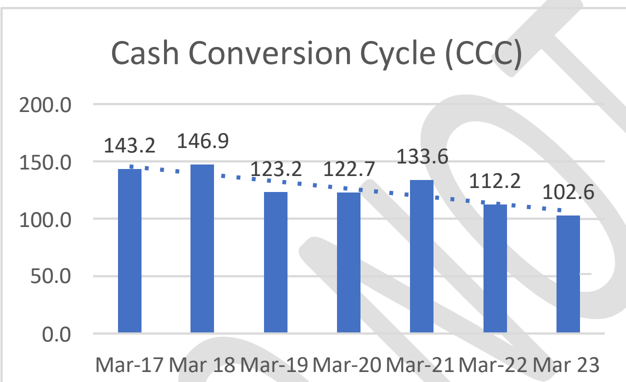
- **Days Payable Outstanding (DPO)**

The Days Payable Outstanding (DPO) has generally remained relatively stable over the years, with only modest fluctuations. From March 2017 to March 2023, the company maintained DPO within a narrow range, indicating a consistent approach to managing supplier payments. There was a slight increase in DPO from March 2017 to March 2018, indicating a potential extension of payment terms with suppliers. While there were some fluctuations in DPO from year to year, these changes were not drastic, suggesting a balanced approach to managing supplier relationships.

- **Days Inventory Outstanding (DIO)**

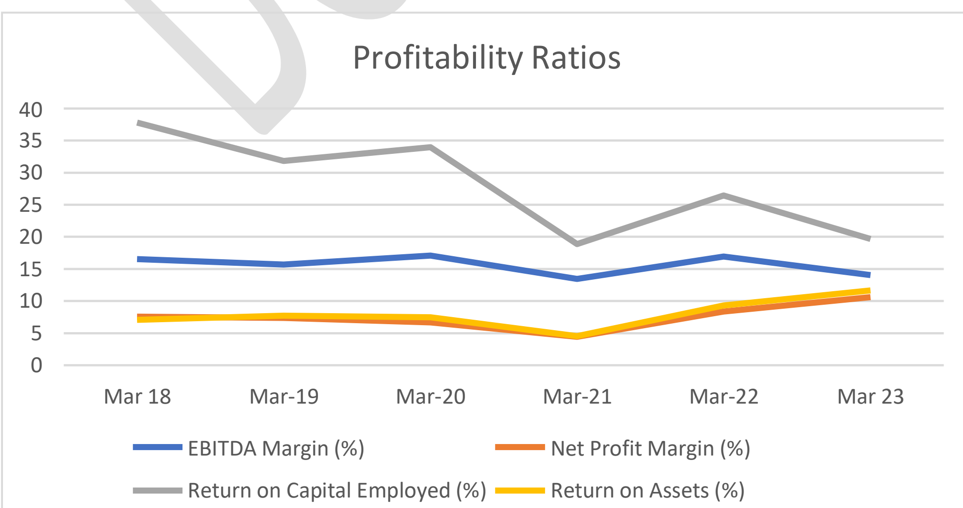
DIO figures ranging from 83.56 to 85 days suggest that the company has, on average, taken around 83 to 85 days to sell its inventory. The DIO has generally remained within this consistent range over the years, except for a slight increase to 96 days in 2021 caused by changing demand patterns and supply chain disruptions. While there were minor fluctuations from year to year, they were not significant, suggesting that the company has maintained a steady approach to managing its inventory.

- **Cash Conversion Cycle**



The Cash Conversion Cycle has shown a consistent improvement trend from 2017 to 2023, indicating enhanced efficiency in managing the company's cash flow. The CCC decreased from 143.2 days in March 2017 to 102.6 days in March 2023, demonstrating the company's ability to more swiftly convert inventory into sales, collect payments from customers, and manage supplier payments. The decreasing CCC reflects a more efficient cash flow management strategy, potentially freeing up capital for investment or reducing reliance on external financing. This trend suggests improved financial health and better utilization of working capital by the company.

3. FINANCIAL ANALYSIS – PROFITABILITY RATIOS



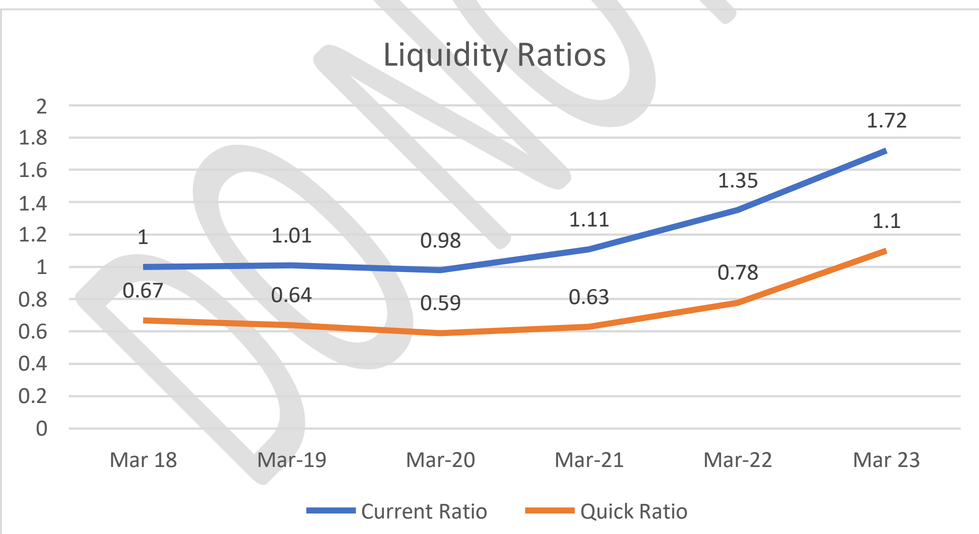
3.1 Earnings before interest, taxes, depreciation, and amortization (EBITDA) and Net Profit

The EBITDA margin, representing earnings before interest, taxes, depreciation, and amortization as a percentage of revenue, has exhibited fluctuations over the years. It peaked at 17.09% in March 2020 but declined to 13.43% in March 2021. In March 2023, it improved to 14.04%, although it remained below the 2020 peak. Concurrently, the Net Profit margin, which reflects the portion of revenue transformed into profit after all expenses, also displayed variability. It hit its lowest point at 4.46% in March 2021 but rebounded significantly to 10.62% in March 2023. The Net Profit margin considers factors beyond operational efficiency, such as interest expenses and taxes. This trend suggests that the company confronted profitability challenges in March 2021, potentially attributed to external factors or operational disruptions linked to the pandemic. However, since then, the company has effectively enhanced profitability, with the EBITDA margin at 14.04% and the Net Profit margin at 10.62% in March 2023. Overall, both EBITDA and Net Profit margins exhibited fluctuations, with a temporary dip in March 2021 likely due to pandemic-induced challenges. The subsequent recovery indicates the company's adaptability and potential improvements in cost management, positioning it on a positive trajectory.

3.2 Return on Capital Employed (ROCE) and Return on Assets (ROA)

The Return on Capital Employed (ROCE) exhibited significant fluctuations over the years, ranging from a high of 37.78% in March 2018 to a low of 18.88% in March 2021. Encouragingly, it rebounded to 19.67% in March 2023. ROCE acts as a litmus test for the profitability of both equity and debt capital employed and it underscores the dynamic financial landscape the company navigated. Meanwhile, the Return on Assets (ROA) followed a trajectory of improvement, ascending from 4.49% in March 2021 to a zenith of 11.64% in March 2023. This highlights the company's prowess in squeezing profit from its asset base, epitomizing astute asset utilization. The confluence of ROCE and ROA reveals a synchronous dip in March 2021, mirroring the pandemic-induced turbulence that potentially affected capital efficiency and asset management. Yet, the ensuing resurgence in both metrics from 2021 to 2023 paints a narrative of adaptability. This resurgence suggests the company's adeptness in reconfiguring its capital structure and honing asset management to surmount evolving conditions, ultimately steering it towards a more stable financial performance.

3.3 <u>LIQUIDITY RATIOS</u>



The Current Ratio and Quick Ratio are key liquidity ratios that assess a company's ability to meet its short-term financial obligations.

Current Ratio:

The Current Ratio, which measures a company's ability to pay its short-term liabilities with its short-term assets, exhibited fluctuations over the years. It reached its lowest point of 0.98 in March 2020 and then rose steadily to 1.72 in March 2023. A Current Ratio above 1 indicates that the company has more current assets than current liabilities, signifying improved short-term liquidity.

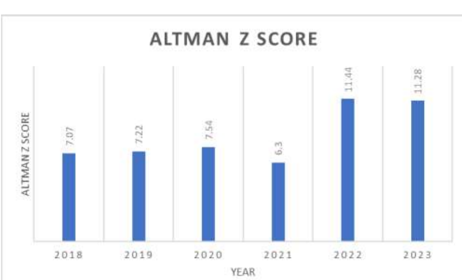
Quick Ratio:

The Quick Ratio, a more stringent measure of liquidity that excludes inventory from current assets, also fluctuated over the years. It reached its lowest point of 0.59 in March 2020 and increased to 1.1 in March 2023. A Quick Ratio above 1 suggests that the company can meet its short-term obligations without relying on the sale of inventory.

Current and Quick Ratios both experienced fluctuations, with a low point in March 2020, likely influenced by economic factors, including the pandemic. However, the upward trend from 2020 to 2023 suggests that the company has strengthened its short-term liquidity position, potentially by optimizing its current asset composition and improving overall financial health

3.4 RISK MANAGEMENT

1. **Market Accessibility & Pricing Environment Risk**
   - *Impact*: Potential market access restrictions and pricing challenges directly affecting profitability.
   - *Mitigation*: Proactive engagement with external stakeholders, collaborative industry-level initiatives, and active governmental engagement through industry bodies.
2. **Counterfeiting Risk**
   - *Impact*: Harms consumers, damages corporate reputation, incurs financial losses, and erodes consumer trust.
   - *Mitigation*: Integrated anti-counterfeiting measures in packaging, active high-risk area identification, industry collaboration, and anti-counterfeit technology adoption.
3. **Cyber Risk**
   - *Impact*: Results in financial losses, operational disruption, and reputational damage.
   - *Mitigation*: Established enterprise-wide cyber risk management processes, centralized inventory management, threat detection, privileged account governance, and cybersecurity training.
4. **Climate Change and Sustainability**
   - *Impact*: Disruption in raw material procurement and pricing, increased sustainability compliance requirements, and potential restrictions on raw materials.
   - *Mitigation*: Focus on water supply, maximize water circularity, enhance operational efficiency, engage communities, improve water efficiency, and support sustainable agriculture.
5. **Compliance & Regulatory Risk**
   - *Impact*: Risk of severe reputation damage and financial penalties due to anti-trust violations.
   - *Mitigation*: Emphasis on awareness, training, and communication, standardized market data collection procedures, proactive analysis of market share schemes, and collaboration with a Legal working group for monitoring anti-competitive practices.



- United Spirits' Altman Z Score has been increasing over the years. There was a slight dip in 2021 due to economic factors and the overall beverage industry facing some sort of downtrend. But the company has eventually taken off with its score showing significant improvement. This company is not likely to go bankrupt and is managing its risks well.

3.5 INVESTMENTS

United Spirits' investment pattern has been relatively conservative in recent years. From 2018 to 2021, there were minimal to no significant investments. However, there was a notable shift in 2022 and 2023, with investments of ₹222.1 million and ₹285.9 million, respectively. It's worth highlighting that the board recently approved a ₹31.50 crore investment in Nao Spirits & Beverages, signalling a potential change in the company's investment strategy.

3.6 DEBT HISTORY

United Spirits' total debt has seen a consistent downward trend over the years, dropping from ₹4,143.60 million in 2017 to ₹183.30 million in 2023. This substantial reduction in debt signifies improved financial management and debt reduction strategies employed by the company, contributing to a stronger financial position. This significant improvement over the years, notably in 2015 happened when Diageo acquired a majority stake.

As of March 2023, the company's debt stands at ₹1.83 billion, down from ₹6.05 billion the previous year. Simultaneously, it holds ₹3.71 billion in cash, resulting in a net cash position of ₹1.88 billion.

Examining the balance sheet, United Spirits has ₹36.2 billion in liabilities due within 12 months and ₹1.38 billion due beyond that period. However, it also possesses ₹3.71 billion in cash and ₹25.1 billion in receivables due within 12 months. While liabilities outweigh the sum of cash and near-term receivables by ₹8.80 billion, the company's overall liquidity appears well-balanced relative to its size.

In conclusion, although United Spirits does have notable liabilities, it maintains a healthy cash position exceeding its debt. This suggests the company is likely well-equipped to manage its financial obligations, reflecting a sound financial position for the ₹723.3 billion enterprise.

Dividend Payout Ratio

The Dividend Payout Ratio for United Spirits Limited remained constant at 0% throughout the years from March 2018 to March 2023. This signifies that the company did not distribute any portion of its profits as dividends to its shareholders during this period. Instead, the company likely chose to reinvest its earnings into the business for growth, debt reduction, or other strategic purposes. This consistent non-payment of dividends could be a deliberate strategy to retain earnings for future investments or to strengthen the company's financial position. It's important to note that the dividend payout policy reflects the company's approach to returning value to shareholders and its broader financial strategy.

4. CORPORATE GOVERNANCE - ROAD SAFETY PROGRAMME & RISING CSR EXPENSES

Years	201803	201903	202003	202103	202203	202303
CSR Expenses	10.5	12.3	15.2	9.5	8.7	22.4

United Spirits' Corporate Social Responsibility (CSR) expenses have exhibited fluctuations over the years, ranging from ₹10.5 million in 2018 to ₹22.4 million in 2023. Alongside these efforts, the company has achieved noteworthy sustainability milestones, including an impressive 89% reduction in greenhouse emissions from its operations. Furthermore, it has created a significant water replenishment capacity of 4,79,047 cubic meters. A commendable 98.5% of renewable energy usage is evident in its operations. Additionally, United Spirits has played a pivotal role in educating over 4 lakh people through its responsible drinking programs, particularly the Road Safety Program, demonstrating a commitment to fostering positive societal impact.

4.1 Board Composition and Gender Ratio

The board composition of 10 members with 4 women demonstrates a commendable commitment to gender inclusivity and diversity within the leadership of the organization. The presence of these accomplished women on the board brings diverse perspectives and expertise to decision-making processes.

The four women board members are Hina Nagarajan, Indu Shahani, Mamta Sundara and Emily Kate Gibson

4.1 ESG

United Spirits Ltd. holds an ESG (Environmental, Social, and Governance) risk rating of 22.3, categorizing it as a "Medium Risk" by Morningstar. This rating reflects the company's performance and practices in various ESG dimensions, indicating areas of strength and areas that may require attention.

Notably, the ESG Committee, consisting of key board members, plays a pivotal role in shaping and overseeing the company's ESG initiatives. The committee members include:

1. Indu Shahani - Non-Executive Independent Director
2. Hina Nagarajan - Managing Director and Chief Executive Officer
3. D Sivanandhan - Non-Executive Independent Director
4. Mark Sandys - Non-Executive Director

These committee members collectively drive the company's efforts to align with ESG best practices, manage associated risks, and seize opportunities for sustainable growth. The "Medium Risk" rating suggests ongoing efforts to address ESG concerns, with room for further enhancement in sustainability and responsible business practices.

5. CONCLUSION

In conclusion, United Spirits Ltd stands out not only as an industry giant but also as a company that has strategically managed its finances in a cash-conservative manner. With a notable reduction in debt and a significant cash reserve, it has fortified its financial stability, allowing it to navigate industry challenges with resilience. This prudent approach, combined with its prominent position in the alcoholic beverages market, places United Spirits in a formidable position for sustained success. As it continues to adapt to evolving consumer preferences and market dynamics, United Spirits exemplifies the art of balancing financial prudence with industry excellence.

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1. INTRODUCTION- UNITED BREWERIES

United Breweries Limited is an Indian company that specializes in the production and sale of both alcoholic and non-alcoholic beverages. The company has two main segments:

- Beer Segment: This segment focuses on manufacturing, procuring, and distributing various beer brands, including Heineken, Kingfisher, Amstel Bier, and more.
- Non-Alcoholic Beverages Segment: In this segment, the company produces and distributes non-alcoholic beverages such as Kingfisher Packaged Drinking Water and Heineken 0.0.

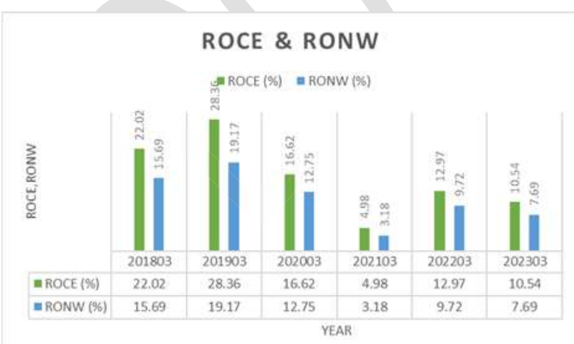
United Breweries Limited operates manufacturing facilities in India and offers a wide range of beer and non-alcoholic beverage brands.

2. FINANCIAL STATEMENT ANALYSIS

Overview: The company's financial performance has witnessed both strengths and areas of concern over the past six years, as indicated by various key financial ratios and performance indicators.

- **Revenue Growth/ Sales:** Net Sales grew steadily from 2018 to 2020, indicating a positive revenue trend. However, there was a significant drop in 2021, due to external factors like the COVID-19 pandemic. The company exhibited a strong recovery in 2022 and 2023, with sales surpassing previous levels.
- **PAT:** Despite a high sales volume and revenue growth, the PAT has shown a decline in trend due to an **increase in raw material prices.**

Profitability:

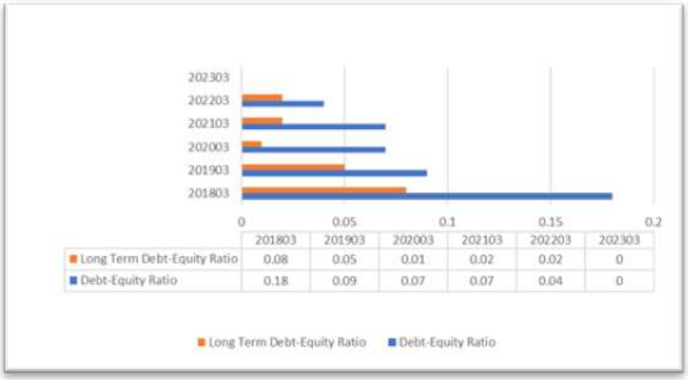


- The company's profitability, as measured by ROCE (Return on Capital Employed) and RONW (Return on Net Worth), has experienced fluctuations.
- ROCE declined significantly from 28.36% in 2019 to 4.98% in 2021 before showing a modest recovery to 10.54% in 2023.
- RONW followed a similar trend, declining from 19.17% in 2019 to 3.18% in 2021, with a slight improvement to 7.69% in 2023.

2.1 Liquidity and Leverage:

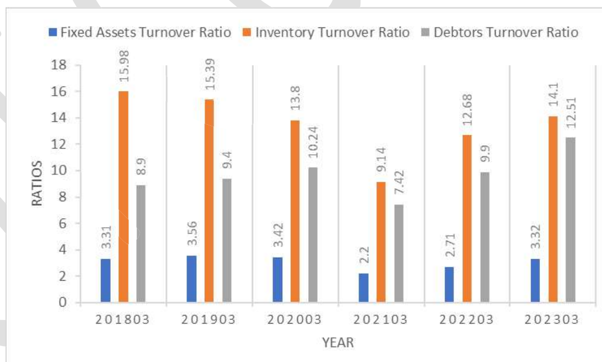
- The company's liquidity position has generally improved over the years, with the current ratio rising from 1.32 in 2018 to 1.67 in 2023, indicating stronger short-term liquidity.

- The debt-equity ratio and long-term debt-equity ratio have both decreased significantly to 0 in 2023, reflecting reduced reliance on debt financing and improved financial stability.



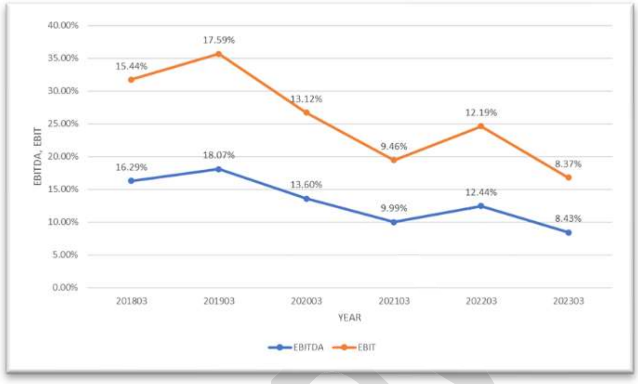
2.2 Efficiency:

- Efficiency ratios, such as inventory turnover, debtor's turnover, and fixed assets turnover, have exhibited varyingtrends.



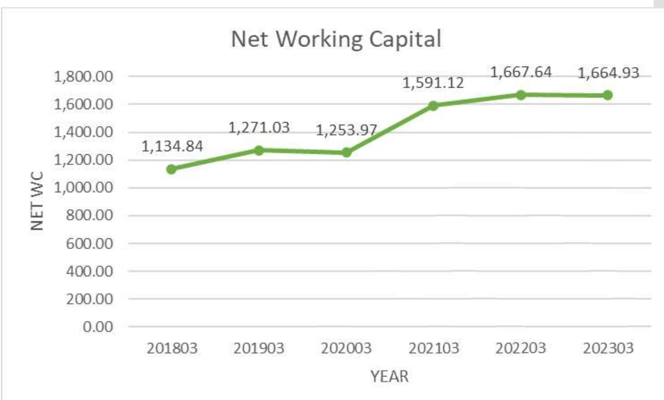
- **Fixed Assets Turnover Ratio**: The trend shows fluctuations, with the ratio peaking at 3.56 in 2019 and bottoming out at 2.2 in 2021 before recovering to 3.32 in 2023. The declining trend from 2019 to 2021 suggests that the company was not effectively utilizing its fixed assets to generate sales during that period. The subsequent recovery in 2023 indicates improved efficiency in utilizing fixed assets.
- **Inventory Turnover Ratio**: The fluctuations suggest variations in inventory management. A lower ratio in 2021 may indicate slow inventory turnover, potentially leading to higher carrying costs. The ratio peaked in 2018, indicating efficient inventory management.
- **Debtors Turnover Ratio** (Accounts Receivable Turnover Ratio): The trend shows fluctuations, with the ratio ranging from 7.42 in 2021 to 12.51 in 2023 due to increase in sales as compared to previous year and improvement in average collection period.

2.3 Profit Margins:



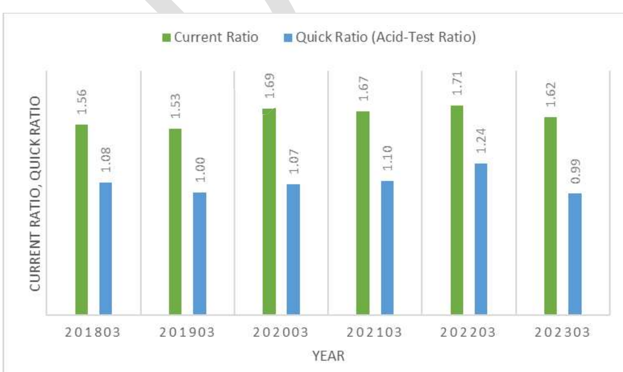
- Profit margins, including EBITDA (Earnings Before Interest, Depreciation, Tax, and Amortization Margin) and EBIT (Earnings Before Interest and Tax Margin), have fluctuated but remained within reasonable bounds. The earnings took a hit in 2021, which was the year of the Covid-19 pandemic. In the subsequent years, the earnings have recovered but have still not been able to catch up to previous levels.
- Payout ratio, representing the proportion of earnings distributed to shareholders, has shown significant variations, ranging from 3.62% in 2022 to 91.49% in 2023.

3. WORKING CAPITAL MANAGEMENT



3.1 Net working capital (NWC): The net working capital has more or less been consistent. Even in 2020, during the Covid period, when the Revenue and profitability had taken a drastic hit, the net working capital was not impacted much. This means it can adapt to changing market conditions while maintaining a healthy liquidity position. The company likely maintains a balanced and conservative financial strategy, avoiding excessive risk and debt, which can further be justified by looking at the debt-equity ratio. The debt is almost negligible and the debt-equity ratio has consistently been falling. A stable NWC during difficult times suggests that the company is not just focused on short-term survival but is also considering its long-term viability and financial health.

3.2 Assessing Liquidity: The company's consistent maintenance of a short-term liquidity position is evident, from the stability of its liquidity ratios. and both the ratios are more than 1 which **signifies the company has more current assets than liabilities.** The Quick ratio excludes the inventories which provides a more conservative measure.



These ratios assess a company's ability to pay off short-term liabilities – and **we can say the company has been doing a good job in meeting the liabilities since the debt has consistently been decreasing and finally became debt-free in 2023.**

The efficiency ratios are generally in line with expectations. The way fixed assets, inventory and collections are utilized efficiently as reflected in the ratios discussed previously supports the company's liquidity.

In 2021 there was a decrease in the Total Asset Turnover Ratio (TATR) which could be attributed to the decline in revenue during that year. However, it showed signs of improvement in 2022.

The company appears to have balanced its liquidity and operational efficiency well. The stability of liquidity ratios alongside relatively efficient asset utilization suggests prudent financial management.

3.3 Assessing Efficiency:

- The company has experienced fluctuations in its working capital and cash conversion efficiency over the years.
- The increase in DSO and DIO increased significantly in 2021 because during the pandemic debtors took longer time to pay back. Thus, the cash conversion cycle also increased significantly. DSO later decreased in 2022 and 2023 due to better credit management.
- DPO is lower than DIO and DSO. This means suppliers are paid back quickly and it takes time to receive payments. The improvements in these ratios in 2022 and 2023 suggest that the company has taken corrective measures to enhance its working capital management
- Working Capital Turnover Ratio: Improvement in working capital turnover ratio from 9.36 to 11.83 due to optimum utilization of funds.

- Inventory turnover decreased significantly in 2021, indicating that inventory was not sold as quickly. However, it improved in subsequent years, suggesting better inventory management.
- Receivables turnover increased in 2020 and 2021, indicating faster collections from customers. However, it dropped notably in 2022 and then rebounded in 2023. These fluctuations may reflect changes in credit policies or customer payment behaviour.
- Payables turnover decreased in 2021, indicating that the company took longer to pay its suppliers. However, it improved in 2022 and further in 2023, possibly reflecting more efficient payments to suppliers.

All the 3 above-mentioned turnover ratios are important KPI metrics.

- The Operating Cycle increased significantly in 2021, indicating a longer time to convert inventory and receivables into cash. However, it improved notably in 2023, suggesting more efficient cash conversion.

3.4 Statement of Changes in WC:

Changes in Current Assets:

- The fluctuations in inventories are notable, particularly the significant decrease in 2022 and the subsequent significant increase in 2023.
- The changes in trade receivables indicate variations in collections and credit policies. The decreases in 2020 and 2022 were followed by increases in the subsequent periods.
- The significant increase in 2021 was followed by a significant decrease in 2023 which may impact liquidity.
- Changes in loans and advances may indicate shifts in lending and borrowing activities. The increase in 2023 suggests higher advances.

3.5 Changes in Current Liabilities:

- The change in the current liabilities is due to the change in Trade Payables, Creditors for Goods, Advances from customers, Provisions and Other Current Liabilities.
- Trade payables increased in 2019 and 2021, indicating that the company took longer to pay its trade suppliers. This could be due to extended credit terms or changes in supplier relationships. While an increase in trade payables can improve short-term cash flow, consistently delaying payments to suppliers may strain supplier relationships and impact the company's creditworthiness.
- Creditors for goods increased in 2019, indicating longer credit terms with suppliers.
  In 2020, there was a significant decrease, possibly due to more timely payments or changes in procurement strategies. Fluctuations in creditors for goods may reflect changes in the company's procurement and payment strategies.
- Advances from customers decreased in 2019 has consistently been low but became 0 for the last 2 years. This may indicate possible changes in sales terms and lower customer prepayments.
- The company has maintained a steady level of provisions and has increased it thereafter. In the last year,2023, the provisions have been decreased. Increasing provisions indicate the company's recognition of contingent expenses and the company takes a conservative approach in maintaining provisions.

3.6 <u>IMPACT ON SHAREHOLDES</u>

The dividend payout ratio has been consistent for 2018-2021 at an average 13.09%. There has been a sudden spike in the dividend payout percentage in 2022. This was because of robust underlying free operating cash flows at Rs.721 crores due to continued improvement in working capital and optimised investment levels. Given the strong liquidity position, the Board proposed a dividend significantly up to Rs.10.50 per Share, representing circa 76.06% payout of profit after tax. Similarly in 2023, The total dividend was Rs. 1,983 million, which amounts to about 65.35% of the Profit after Tax.

An increase in dividends even when PAT trends are declining may suggest that the company has an unsustainable dividend policy. This can lead to a situation where the company is paying out more in dividends than it can afford, which is not a sound financial strategy. Sometimes, companies may increase dividends despite falling profits to appease shareholders or to maintain their stock price. Shareholders often expect consistent or growing dividends and a sudden reduction in dividends can lead to a negative reaction in the stock market. Companies may choose to keep dividend payments stable or even increase them temporarily to avoid disappointing shareholders. Also, a company with strong working capital (current assets exceeding current liabilities) has more financial flexibility. This can enable it to pay out higher dividends to shareholders. There's often a positive correlation between a healthy working capital position and a higher dividend payout ratio.

3.7 KEY PERFORMANCE INDICATORS

a. **Inventory KPI**

- **Gross Margin Return on Investment:** The GMROI has shown a decreasing trend. It can be attributed to 2 facts- Inventory bloat and lower sales. Carrying too much inventory ties up capital and incurs carrying costs such as storage and insurance. This can lower the overall return on investment. We can see from the balance sheet that inventories have been increasing from 2018-2023.
- **Percentage of Maintenance Repairs Operations to Total Inventory:** The % of MRO to Total inventory has been more or less consistent from 2018-2023 and has stayed between the range 3.6% to 6%. A consistent suggests that a company is efficiently using its working capital, managing cash flow effectively, mitigating risks and controlling costs.

b. **Debtors KPI**

- **Credit Risk:** In the case of trade receivables, a substantial portion (66% at March 31, 2023, and 68% at March 31, 2022) consists of amounts owed by state government corporations, where the likelihood of default is extremely low. To manage this risk, the company has established regional and corporate credit committees responsible for regularly reviewing trade receivables and implementing necessary risk mitigation measures when deemed necessary. The Company has not issued any debt instruments and does not have any fixed deposit program or any scheme or proposal involving mobilization of funds in India or abroad during the financial year ended March 31, 2023.The ratings given by ICRA Limited for short-term borrowings and long-term borrowings of the Company are A1+ and AA+ respectively.

c. **Creditors KPI**

- **Payables Turnover:** It shows an increasing trend over time, suggesting improved efficiency in paying suppliers. The company is managing its working capital effectively by paying its suppliers more than nine times a year on average**.**

3.8 KEY DISRUPTORS & RISK MANAGEMENT

Key Disruptors:

- Market Competition and Innovation: The introduction of new craft and premium beer brands in various segments poses a significant disruptor to the industry. To address this, the company should continue to invest in innovative brand offerings and maintain product quality to stay competitive.
- Regulatory Challenges: The complex regulatory landscape, including taxes, pricing regulations, and inter-state movement restrictions, can disrupt operations. The company must proactively engage with government bodies to navigate these challenges and ensure a favourable business climate.
- Inflationary Pressure: Inflationary pressures on the cost base can impact profitability. The company should seek strategies to mitigate these impacts, such as strategic price revisions and cost-saving initiatives through engagement with the government.
- Supply Chain Vulnerabilities: Fluctuations in the availability, quality, or price of raw materials, such as barley, and packaging materials can disrupt production. The company should explore collaborative farming and develop a strategic plan to address supply risks, including discussions with suppliers.
- Demand Volatility: The effects of social and economic cataclysms can make it difficult to predict demand cycles. To address this, the company should maintain cost-consciousness, agility, and efficiency in operations while expanding its brand portfolio and adopting modern technologies to respond to market demands.

Risk Management:

- Regulatory Compliance: Establish a robust compliance framework to ensure adherence to evolving regulatory requirements. Regularly review compliance obligations and provide training to employees to mitigate compliance risks.
- Supply Chain Risk Management: Develop a comprehensive supply chain risk management strategy that includes alternative sourcing options, supplier collaboration, and contingency plans to address disruptions in the availability of raw materials and packaging.
- Inflation Mitigation: Continuously monitor inflationary pressures and implement strategies to mitigate cost increases, such as strategic pricing adjustments and proactive engagement with government authorities to seek relief.
- Cybersecurity and IT Resilience: Strengthen cybersecurity measures and IT operational resilience to protect against external cyber threats, data breaches, and disruptions in business operations. Foster a "Secure by culture" mindset among employees and conduct regular drills for business continuity and disaster recovery.
- Talent Management: Given the competitive labour market, focus on attracting and retaining top talent. Implement initiatives to build a diverse and inclusive culture at all levels, including top management positions, to ensure an engaged workforce.

By addressing these disruptors and effectively managing these risks, the company can sustain its leadership position, achieve market growth, and enhance profitability in the future.

3.9 RISK FACTOR USING ALTMAN Z-SCORE

Period	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Altman Z Score	11.23	14.03	11.04	10.29	13.99	12.18

United Breweries' Altman Z Score has been increasing over the years. There was a slight dip in 2020 and 2021 due to economic factors and the overall beverage industry facing some sort of downtrend. But the company has eventually taken off with its score showing significant improvement. This company is not likely to go bankrupt and is managing its risks well.

4. THE TIME OF COVID-19

2020-2022 were the years when the entire economy was struggling with the Covid-19 pandemic. The impact of such scenario on the financials have already been discussed above. A consolidated picture of all the key Ratios and metrics is illustrated below for an overview. The years before covid are highlighted in green, the years impacted by COVID-19, even slightly, are highlighted in red, and the post-covid period is highlighted in yellow in the illustration below.

	201803	201903	202003	202103	202203	202303
Y-O-Y Growth (Net Sales)	18.82%	15.24%	0.52%	-34.81%	37.60%	28.46%
Margins:						
EBITDA	16.29%	18.07%	13.60%	9.99%	12.44%	8.43%
EBIT	15.44%	17.59%	13.12%	9.46%	12.19%	8.37%
EBT	10.82%	13.58%	8.74%	3.99%	8.47%	5.56%
PAT	7.02%	8.70%	6.58%	2.68%	6.27%	4.06%
Debt-Equity Ratio	0.18	0.09	0.07	0.07	0.04	0
Long Term Debt-Equity Ratio	0.08	0.05	0.01	0.02	0.02	0
Interest Cover Ratio	13.74	29.16	19.23	8.41	34.35	90.54
Current Ratio	1.56	1.53	1.69	1.67	1.71	1.62
Quick Ratio (Acid-Test Ratio)	1.08	1.00	1.07	1.10	1.24	0.99
Cash Ratio	0.01	0.02	0.04	0.24	0.46	0.17
Working Capital Ratio	0.20	0.19	0.22	0.23	0.24	0.23
Days Sales Outstanding (DSO)	NA	84.82	80.22	118.08	82.83	64.78
Days Inventory Outstanding (DIO)	NA	61.23	68.65	103.24	74.22	61.44
Days Payable Outstanding (DPO)	NA	39.95	40.28	59.90	49.33	37.30
Cash Conversion Cycle (CCC)	NA	106.09	108.59	161.41	107.72	88.92
Inventory Turnover	NA	5.96	5.32	3.54	4.92	5.94
Receivables Turnover	NA	3.73	4.53	4.74	3.20	4.39
Payables Turnover	NA	9.14	9.06	6.09	7.40	9.79
Operating cycle	NA	146.05	148.87	221.32	157.05	126.22
Net Working Capital Turnover	NA	4.671092	5.129053	4.575771	2.604113	3.503866

During the Pandemic (COVID-19 Impact):

- During the COVID-19 pandemic (in 2020 and 2021), the company encountered significant difficulties. These challenges included **declining sales and profitability, which can be attributed to reduced consumer spending, supply chain disruptions, and economic uncertainties caused by the pandemic.**
- Various state government-imposed measures, including tax increases, which negatively impacted the industry. Many of these tax increases were later partially or fully rolled back.

- The lockdown led to the complete closure of outlets and on-trade sales, causing lost sales volumes and provisions for obsolete stocks.
- **The company estimated a direct financial impact of Rs. 1,030 million for FY20 due to COVID-19.**
- The health and safety of stakeholders were prioritized, and support was extended to communities through medical support and relief efforts.

Post-Pandemic (After COVID-19):

- The FY22 continued to be impacted by the second wave of COVID-19 in April-May 2021, affecting volumes in the beer industry.
- The third wave of COVID-19 in January 2022 had a relatively lesser impact.
- The company remained focused on key strategic pillars, including increasing category penetration, managing costs, and sustainability.
- The company expanded its market share during the financial year, solidifying its leadership.

5. CORPORATE GOVERNANCE

BOARD COMPOSITION: The board comprises a total of eight directors with a mix of Executive, Non-Executive, and Independent Directors. This balance is generally considered positive for corporate governance as it ensures a diversity of perspectives and reduces the risk of conflicts of interest. Having 2 out of 8 women on the board of directors signifies a gender diversity level of 25% on the board. This diversity level indicates that the company has made some efforts to include women in its board leadership.

5.1 CORPORATE SOCIAL RESPONSIBILITY:

- Water Conservation: UBL allocated over 70% of its CSR funds to water conservation projects, including rainwater harvesting and clean drinking water initiatives in multiple states.
- Community Development: They planted thousands of trees to create an Urban Dense Forest, fostering biodiversity through the Miyawaki technique in Maharashtra.
- Disaster Relief: UBL supported co-communities during floods by distributing ration and hygiene kits to 2,000 households near their Odisha brewery.
- Women Empowerment: They awarded scholarships to 516 female students and trained 30 women farmers in agroforestry, promoting gender equality and livelihood opportunities.
- Sustainable Partnerships: UBL collaborates with credible partners to build a more resilient, equitable, and sustainable future for co-communities, ensuring effective execution of CSR initiatives.

5.2 ENVIRONMENT & SUSTAINABILITY:

- Net Zero Commitment: UBL is committed to achieving Net Zero carbon emissions for all production sites by 2030 and throughout its entire value chain by 2040. They are actively increasing their use of renewable energy to reduce carbon emissions significantly.
- Water Efficiency: UBL is focused on reducing freshwater consumption through water efficiency projects, aiming to reduce intake in water-stressed areas to 2.6 hl/hl by 2030. They also plan to balance water use through water recharge projects around their breweries.
- Circularity and Waste Management: UBL has a sustainable waste management program with a goal to become 100% landfill-free by 2025. They emphasize recycling, with 94.3% landfill-free achieved, and promote the use of recycled materials in packaging while responsibly handling plastic waste through Extended Producer Responsibilities (EPR).

5.3 ENVIRONMENTAL SOCIAL GOVERNANCE

- The Morningstar Sustainalytics report has computed the ESG rating of United Breweries of 29.4 i.e., Medium Risk.
- Exposure refers to the extent to which a company is exposed to different material ESG issues. United Breweries' Exposure is Medium.

- United Breweries Ltd.'s Management of ESG Material Risk is Average

6. CONCLUSION

The company saw steady revenue growth until the COVID-19 pandemic in 2020 and 2021. However, it exhibited a strong recovery in 2022 and 2023, surpassing previous sales levels. The company improved its liquidity position, reduced its debt, and achieved a debt-free status in 2023, demonstrating financial stability. The company effectively managed its working capital, maintaining a consistent Net Working Capital (NWC) and a balanced financial strategy. United Breweries has navigated through challenges, including the impact of the COVID-19 pandemic, by demonstrating resilience, financial prudence, and a commitment to sustainability and corporate governance. However, it faces ongoing challenges in maintaining profitability and dividend sustainability while continuing to adapt to market dynamics and regulatory changes.

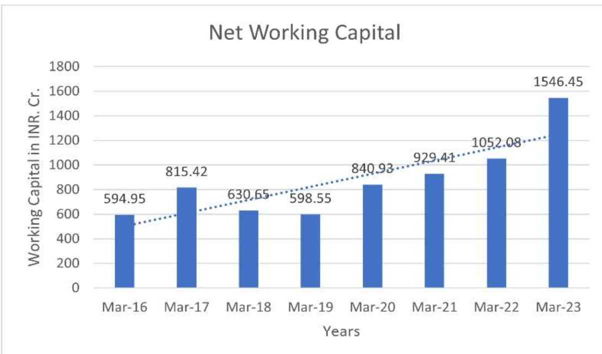
*****

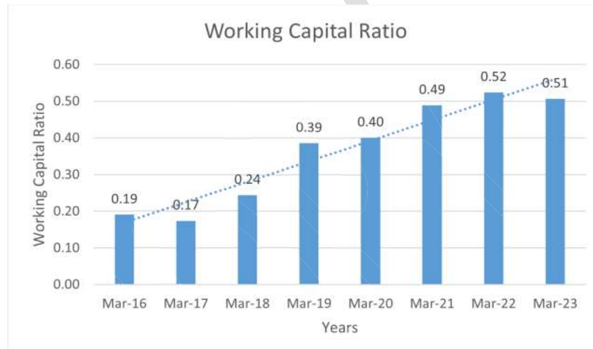
1. INTRODUCTION – RADICO KHAITAN

Radico Khaitan, previously known as Rampur Distillery, is an Indian spirits company based in Uttar Pradesh, India. It operates in the alcoholic beverages industry and is known for popular brands like Jaisalmer, Magic Moments, Morpheus and 8 PM. The company's business model focuses on producing and marketing a range of alcoholic beverages, including whisky, rum, vodka, and brandy, catering to both domestic and international markets.

2. WORKING CAPITAL TRENDS

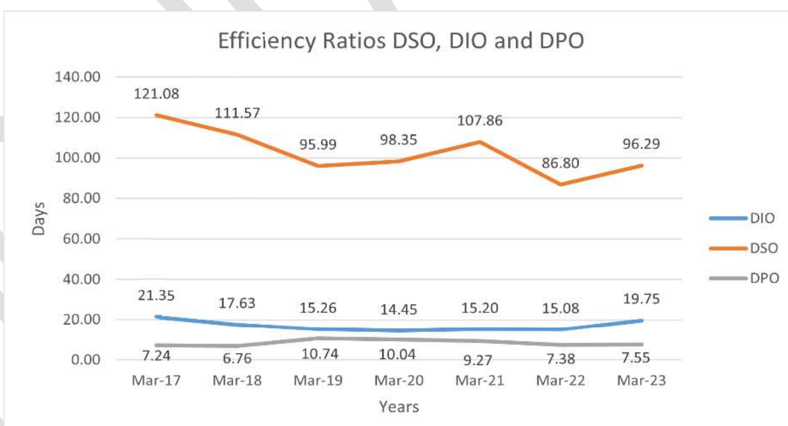
2.1 Net Working Capital





Radico Khaitan's net working capital displayed various fluctuations. A decline in 2018 was due to challenges arising from increased short-term liabilities and the working capital ratio decreased further to 0.17. Subsequently, from 2019 to 2022, net working capital fluctuated, reflecting evolving financial strategies and market dynamics. The most significant change occurred in 2023, with a substantial increase in net working capital and the working capital ratio improved to 0.51. This was driven by a surge in short-term assets, signified by a robust improvement in liquidity

2.2 Trends in Efficiency



- **Days Sales Outstanding (DSO)**

In 2019 and 2020, the DSO improved to about 98 days, reflecting increased efficiency. In 2022, there was a significant improvement with a DSO of 86.8 days, due to better credit management. In 2023, it increased to 96.29 days but maintained a reasonable DSO which is vital for working capital and cash flow optimization.

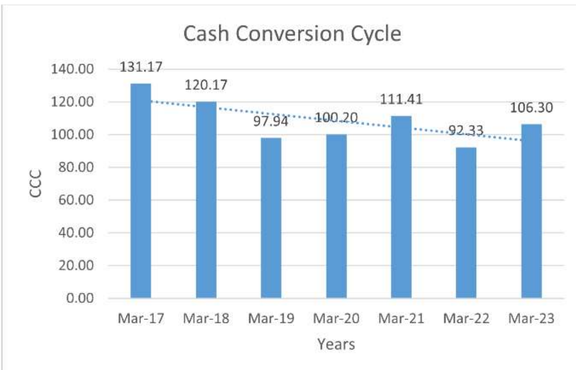
- **Days Inventory Outstanding (DIO)**

From 2018 to 2020, the Days Inventory Outstanding (DIO) showed positive signs, decreasing from 17.63 days to approximately 14.5 days, indicating significant improvements in inventory turnover due to better sales and distribution strategies. In 2021, DIO slightly increased due to Covid-19-related market factors. By 2023, DIO rose to 19.75 days, due to changing demand patterns and supply chain disruptions.

- **Days Payable Outstanding (DPO)**

In 2018, Radico Khaitan's Days Payable Outstanding (DPO) slightly decreased to 6.76 days, indicating the company's continued practice of making relatively timely payments to its suppliers. However, in 2019 and 2020, there was an increase in DPO to around 10.04 days. This move was aimed at enhancing cash flow by extending payment terms and negotiating improved credit terms with suppliers, enabling the company to allocate its resources more efficiently. By 2023, with DPO reduced to 7.55 days, the company adjusted its payment strategy, reverting to prompt payments to its suppliers to maintain good supplier relationships.

- **Cash Conversion Cycle (CCC)**



In 2018, Radico Khaitan's Cash Conversion Cycle (CCC) remained relatively high. The trend continued positively in 2019 and 2020 with a dip in CCC to 100.20 days, indicating more efficient working capital management. However, in 2021, the CCC increased to 111.41 days due to Covid-19-related working capital dynamics. By 2023, the CCC increased to 106.30 days, signifying a slightly longer time to convert investments into cash compared to previous years.

3. FINANCIAL ANALYSIS

3.1 Profitability margins and ratios

Profitability Margins

From 2018 to 2021, Radico Khaitan maintained a stable EBITDA Margin of 18% due to consistent operating profitability driven by product expansion and global expansion through distribution agreements, and the PAT Margin steadily grew to 11%, signifying improved operational profitability. However, in 2023, the EBITDA and PAT Margin declined to 12% and 7%, respectively. These setbacks were attributed to post-COVID recession challenges and operational issues within the Beverage Industry.

Fixed Asset Turnover Ratio

From 2017 to 2022, Radico Khaitan showed consistent and significant improvement. This was driven by strategic efforts to optimize production processes and asset management. In 2023, there was a decline to 9.46, attributed to temporary market fluctuations, suggested by industry analysts.

Return on Capital Employed

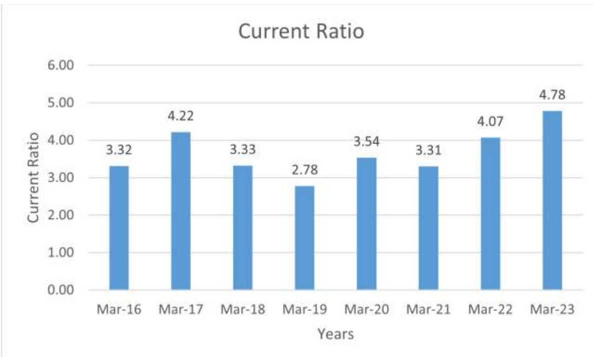
From 2017 to 2019, Radico Khaitan witnessed a steady increase in its Return on Capital Employed (ROCE), rising from 9.69% to a peak of 18.68%. This improvement reflected the operational efficiencies. In 2021, ROCE remained high at around 18.23%, showcasing a continued commitment to value creation and efficient capital use. In 2023, it declined to 11.40%; which is be attributed mainly to challenges affecting both profitability and capital efficiency.

Dividend Payout Ratio and Impact on Shareholders

In 2019, Radico Khaitan intentionally reduced its Dividend Payout Percentage, from 16.39% (2016) to 7.09% (2019), aligning with the strategy to retain earnings for capacity expansion and innovation. In 2023, the Dividend Payout Percentage rose to 19.62%, driven by strong financial performance, delivering higher returns for investors and the company announced a dividend payout of rupees 3 per share held.

3.2 Liquidity Ratios

Current Ratio



Radico Khaitan's Current Ratio shows a fluctuating trend from 2016 to 2023 which suggests the company's responsiveness to economic conditions and shifts in working capital. A rising Current Ratio in these years reflects improved liquidity management, which is essential for meeting short-term obligations.

Quick Ratio

The Quick Ratio has demonstrated a consistently improving trend since 2017. The ratio increased over this period (2017-23), indicating the company's enhanced ability to meet its short-term obligations without relying heavily on inventory. This positive trend reflects strengthened liquidity and effective working capital management.

Cash Ratio

From 2017 to 2023, Radico Khaitan's Cash Ratio had an upward trend, signalling a strengthened liquidity position. In 2021, a news article highlighted the company's prudent cash management during the COVID-19, reinforcing its positive cash ratio trend.

3.3 Key Performance Indicators

a. Inventory KPI

- **Inventory Turnover Ratio**

Methodology: *Cost of Goods Sold / Average Inventory*

From 2017 to 2023, Radico Khaitan's Inventory Turnover ratio experienced a generally declining trend. This is because the company took longer to sell its inventory over this period. A declining Inventory Turnover was due to changes in demand.

- **Gross Margin Return on Investment**

Methodology: *Gross Profit / Average Inventory*

Over the years from 2017 to 2023, Radico Khaitan's Inventory Turnover and GMROI demonstrated a fluctuating trend. This trend is indicative of the company's varying efficiency in managing inventory and generating gross profit.

- **Percentage of Maintenance Repairs Operations to Total inventory**

From 2018 to 2023, Radico Khaitan's percentage of MRO to total inventory increased consistently from 7.92 to 8.51% respectively. Such a shift can be reflective of the company's commitment to ensuring operational efficiency and reliability. However, such allocation can also indicate a case of manipulation by overstatement of MRO costs, selective timing and misclassification of items.

- **Beinish M Score**: Beinish M-Score -1.96 no higher than -1.78, which implies that the company is unlikely to be a manipulator.

b. Debtors KPI

- **Debtors' turnover**

Methodology: *Sales/Average Debtors*

From 2017 to 2023, Radico Khaitan's Debtors Turnover ratio demonstrated a fluctuating trend. It increased from 2017 to 2019, due to more frequent turnover of debtors. From 2020 to 2023, the ratio decreased, due to a slower rate of debt collection arising from the Covid-19 credit policies, economic conditions and shifts in customer payment behaviour.

- **Debtors impaired:** Radico Khaitan did not have any debtors impaired from 2018 to 2020. But as of 2022-23, Radico Khaitan has debtors impaired of 31.960 crores. This is due to the Covid-19 pandemic and debtors were unable to repay their loans to the company.
- **Credit Risk**: As of 2023, CARE Ratings has rated Radico Khaitan's Long-term bank facilities as "CARE AA-; Positive" and their Short-term bank facilities as "CARE A1+". This outlook has been positive. Their liquidity position remains strong.
- **Debtors ageing**: As of 2023, the debtors who are less than 6 months old stand at 772 crores. 1-2 years old stands at 19 crores, within 2-3 years stand at 1.6 crores and debtors older than 3 years stand at 11.16 crores. Their debtors who are older than 3 years have shown an increasing trend which may lead to bad debts. This can be attributed to sub-par collection policies.

c. Trade Payables KPI

- **Payable Turnover:**

In 2017, Radico Khaitan had a relatively high Payable Turnover ratio, this could be seen as a strategy to maintain good relationships with suppliers and to take advantage of early payment discounts. The ratio decreased significantly by 2020 because the company extended its payment cycle during these years and negotiated more favourable payment terms with suppliers. From 2021 there was a gradual increase in order to strengthen its supplier relationships during this period.

3.4 Key Disruptors and Risk Management

- High Regulatory Environment: Every State has a different regulatory framework. To mitigate the risks associated with operating in such an environment, the company adopted a comprehensive risk management approach by developing a robust compliance framework that outlines the relevant regulations, standards, and guidelines.
- Credit risk: Measured by Review of receivables, arising out of Cash and cash equivalents, deposits with banks, trade receivables, loans and other financial assets measured at amortized cost. The company is managing this by diversifying bank deposits, monitoring of credit limits and assessing of recoverability of loans from related parties & other counterparties.

Key Disruptors:

- Supply Chain Disruption: Government restrictions while Covid-19 led to Supply Chain restrictions. Such restrictions caused the beverage industry to struggle with the procurement and delivery of goods.
- Cyber Security: Growing salience of technology has given rise to increased threat of loss of information and cyber security. Any breach may result in loss of sensitive information, business interruptions, potential fines, reputational damage, etc.
- Alternative Alcoholic Beverages: The emergence of non-alcoholic and low-alcohol beverages is a disruptive trend in the alcoholic beverage industry. Radico Khaitan may need to adapt by diversifying their product portfolio to meet changing consumer preferences.

Testing the company's Risk using the Altman Z score

The Altman Z-score is the output of a credit-strength test that gauges a publicly traded manufacturing company's likelihood of bankruptcy.

(If Altman Z score <1.8= Bankruptcy and if Altman Z score >3= Not likely to go bankrupt)

Altman Z-Score = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E

Where:
A = working capital / total assets
B = retained earnings / total assets
C = earnings before interest and tax / total assets
D = market value of equity / total liabilities
E = sales / total assets

As we can see, Radico Khaitan's Altman Z Score has been increasing over the years. There was a slight dip in 2020 due to economic factors and the overall beverage industry facing some sort of downtrend. But the company has eventually taken off with its score showing significant improvement. This company is not likely to go bankrupt and is managing its risks well.

3.4 Bad Debt of the Company

As of 2023, about 31.96 crores and P.Y. 2022 30.04 crores of Trade Receivables were impaired due to non-repayment, while doubtful debts were zero. The company creates a provision for bad debts for the same amount as the bad debts. This stagnating amount for bad debts implies Ineffective Credit Management or Customer Creditworthiness Issues. Furthermore, the company has about 18 crores of Bad Debts which are more than 3 years old and disputed bad debts which stand at 6.76 crores for F.Y. 2023. This further signifies the inefficient credit management strategies used by the company. This amount has shown an increase post the Covid-19 pandemic indicating that the beverage industry has taken a hit with regard to their debt collection.

4. IMPACT OF COVID-19 PANDEMIC ON RADICO KHAITAN

During Covid-19 the government of India placed various restrictions on the movement of goods. Radico Khaitan being a liquor manufacturing company faced various difficulties in procuring and delivering goods.

Working Capital during the Pandemic:

During the FY 2020-21, when the impact of COVID-19 was the highest among all industries, here are some of the efficiency metrics, ratios and cycle durations of Radico Khaitan.

	Particular	2018	2019	2020	2021	2022
1	Day Sales Outstanding	111.57	95.99	98.35	107.86	86.80
2	Days Inventory Outstanding	17.63	15.26	14.45	15.20	15.08
3	Days Payable Outstanding	6.76	10.74	10.04	9.27	7.38
4	Turnover Ratios:					
4.1	Inventory Turnover	5.17	5.31	5.65	6.63	4.79
4.2	Receivables Turnover	3.27	3.80	3.71	3.38	4.20
4.3	Payables Turnover	13.48	7.54	8.13	7.60	9.79
5	Cash Conversion Cycle	120.17	97.94	100.20	111.41	92.33
6	Operating Cycle	129.20	111.25	112.80	123.60	101.88

This increase in DIO and DSO signifies that the company faced some challenges; compared to the previous year, to finish their inventory. This is due to the curbs set by the government on movement of non-essentials. Whereas the DPO has reduced which signifies that the company is maintaining good relations with its creditors even in times of distress. The Cash Conversion Cycle and Operating Cycle also increased due to the increase in DSO and DIO. On similar lines, the inventory turnover and receivable turnover had shown an increase since the previous year. This can be attributed to lesser sales and credit risk from debtors due to Covid-19. The company has done fairly well in Covid given the circumstances. They diligently moved online and made sure their products were sold via online platforms to continue operations.

5. CORPORATE GOVERNANCE

5.1 Board Composition and Gender Ratio

Based on the composition of its board members, some insights into the company's governance and decision-making approach are as follows.

Dr. Lalit Khaitan (Chairman and Managing Director) and Mr. Abhishek Khaitan (Managing Director) hold executive leadership positions within the company. This suggests that the company may have a strong family-led management style, with key decisions often driven by the founders or their close associates. The presence of multiple Non-Executive Independent Directors, including Dr. Raghupati Singhania, Mr Sarvesh Srivastava, Ms Sushmita Singha, Mr Sharad Jaipuria, and Mr Tushar Jain, suggests a commitment to corporate governance and transparency. As we can see there is only one female board member out of 8 Board Members.

5.2 Environmental Social Governance

- Radico Khaitan formed an ESG committee on 14 February 2023.
- The ESG committee comprises of 3 members, Ms. Sushmita Singha being one of them.
- The Morningstar Sustainalytics report has computed the **ESG rating of Radico Khaitan of 33.4** i.e., **High Risk**.
- Exposure refers to the extent to which a company is exposed to different material ESG issues. Radico Khaitan Ltd.'s **Exposure is Medium**.
- The management score assesses the robustness of a company's ESG programs, practices and policies. Radico Khaitan Ltd.'s Management of **ESG Material Risk is Weak**.

5.3 Corporate Social Responsibility

Radico Khaitan has 2 major CSR activity projects. As of 2023, the amount spent on CSR and donations stands at 6.40 crores.

Radico Bhujal Shakti Water Literacy Programme: This has covered 451 villages of Rampur district in Uttar Pradesh. This project benefited approx. 40% of the total population of such villages. Around 5,500 participants have completed the water literacy programme.

Radico Art of Living Skill Development Skill Programme: The company started a skill development centre focusing on providing necessary skills to youth who have not been able to successfully pass 10th or 12th grade and are unemployed.

6. CONCLUSION

In summary, Radico Khaitan has experienced fluctuations in its working capital over the years, with a notable improvement in liquidity in 2023. Efficiency metrics, while generally positive, have seen some variation, reflecting changing market conditions. Profitability margins remained stable until 2023 when challenges arose post-COVID.

Liquidity ratios indicate improved management of short-term obligations. However, there are concerns about increasing impaired trade receivables, suggesting potential credit management issues. The company pays its creditors quickly but it takes a long time to collect money from its debtors indicating that funds are stuck in the business. Due to this, the company uses its own money for contributions to working capital.

The impact of COVID-19 posed challenges, but the company adapted by moving online maintaining good relations with creditors and being cash conservative with their approach. The Altman Z-score analysis suggests the company's resilience to bankruptcy. Overall, Radico Khaitan has managed its working capital reasonably well, with some areas for improvement in credit management.

OVERALL INDUSTRY ANALYSIS:

The alcoholic beverages industry in India, as represented by Radico Khaitan, United Spirits Limited, and United Breweries Limited, has exhibited a diverse range of strategies and performance metrics in managing their working capital. A holistic examination of their financial statements and key performance indicators reveals the industry's adaptability to various market dynamics and economic challenges, particularly the disruptive impact of the COVID-19 pandemic.

Working Capital Trends:

One of the primary takeaways from this analysis is the resilience of these companies in managing their working capital amidst challenging circumstances. All three companies experienced fluctuations in their net working capital, but they demonstrated the ability to adapt to changing market conditions.

Radico Khaitan faced a decline in 2018 due to short-term liabilities, but it significantly improved its net working capital in 2023, suggesting a strong focus on liquidity management. United Spirits went through a period of decline in 2020-2021 but staged a remarkable recovery in 2023, showcasing its adaptability to market disruptions. United Breweries, on the other hand, maintained a relatively stable net working capital, emphasizing long-term financial viability.

Efficiency Metrics:

Efficiency metrics such as Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), and Days Payable Outstanding (DPO) varied among the companies, reflecting distinct strategies and market conditions. However, the industry, as a whole, demonstrated the ability to manage these metrics effectively.

Radico Khaitan's DSO showed improvements in 2020-2022, indicating effective credit management, and its DPO fluctuated, reflecting supplier relationship adjustments. United Spirits consistently improved its DSO, showcasing efficient receivables management, while United Breweries exhibited stable DPO, indicating balanced supplier relationships.

Inventory management played a vital role. Radico Khaitan's DIO increased in 2023 due to changing demand patterns, while United Spirits' DIO improved, suggesting better inventory management post-pandemic. United Breweries efficiently controlled its inventory turnover, maintaining stable DIO.

Liquidity and Leverage:

The industry's liquidity ratios, including the Current Ratio and Quick Ratio, generally displayed improvements over the years, indicating strengthened short-term liquidity positions. All three companies ensured that they had more current assets than liabilities, essential for meeting short-term obligations.

Leverage ratios, especially the debt-equity ratio, demonstrated prudent financial management. Radico Khaitan and United Spirits have reduced their debt levels significantly, and United Breweries became debt-free in 2023. This signifies a commitment to financial stability and reduced reliance on external financing.

Profitability Margins:

Profitability margins in the industry witnessed fluctuations, with challenges in 2021 due to the COVID-19 pandemic. Radico Khaitan faced setbacks in EBITDA and PAT margins in 2023, largely attributed to post-pandemic recession challenges. United Spirits and United Breweries experienced dips in profitability during the pandemic year but showed signs of recovery in subsequent years.

Credit Risk and Supplier Relationships:

All three companies have actively managed credit risk and supplier relationships. They adjusted their payment strategies, extended credit terms with suppliers when necessary, and focused on maintaining good supplier relationships.

Bad Debt and Provisions:

The companies grappled with bad debt, especially in recent years. Radico Khaitan and United Spirits saw an increase in bad debt post-COVID, suggesting challenges in debt collection. This highlights the importance of effective credit management and debt recovery strategies.

Corporate Governance:
Radico Khaitan's corporate governance appears to be influenced by its family-led management, with Dr. Lalit Khaitan and Mr. Abhishek Khaitan holding executive positions. The presence of independent directors demonstrates commitment to transparency, although gender diversity is lacking with only one female board member. United Spirits displays a mix of executive and independent directors, with notable gender diversity, as four out of ten board members are women. This diversity contributes to varied perspectives and better governance. United Breweries has a well-balanced board composition, consisting of executives, non-executives, and independent directors. While their gender diversity is at 25%, it signifies an effort to include women in leadership roles.

ESG (Environmental, Social and Governance):
Radico Khaitan has recently established an ESG committee, indicating growing awareness of ESG factors. However, their ESG rating is high-risk, and their management of ESG material risk is weak, suggesting room for improvement.
United Spirits holds a medium ESG risk rating, suggesting moderate ESG performance. The presence of an ESG committee underscores their commitment to addressing ESG concerns and sustainability. United Breweries has a medium ESG risk rating, indicating a balanced ESG performance. Their commitments to achieving net-zero carbon emissions and water efficiency projects reflect efforts towards sustainability.

Corporate Social Responsibility (CSR):
Radico Khaitan's CSR efforts focus on water literacy and skill development, demonstrating a commitment to social responsibility. United Spirits has shown fluctuating CSR expenses, but it has achieved sustainability milestones in emissions reduction and water conservation. Their Road Safety Program highlights a positive societal impact. United Breweries allocates a significant portion of CSR funds to water conservation and supports disaster relief and women empowerment initiatives. Their focus on sustainability partnerships indicates a commitment to social responsibility.

Risk Management:
The impact of COVID-19 affected Radico Khaitan's working capital, but they adapted well by moving operations online. The decrease in DPO signifies good relations with creditors during distress. United Spirits has effectively reduced its debt over the years, maintaining a healthy cash position. This demonstrates strong financial risk management. United Breweries has an improving Altman Z Score, indicating a low risk of bankruptcy. Their proactive risk management approach includes addressing market competition, regulatory challenges, and supply chain vulnerabilities.

Overall Resilience and Adaptability:
In summary, the alcoholic beverages industry in India has shown resilience and adaptability in managing working capital. These companies have weathered the storm of economic disruptions and have been prudent in their liquidity management. They have also demonstrated the ability to optimize their operational efficiency, maintain profitability, and actively mitigate credit risk.
All three companies face common challenges related to market competition, regulatory compliance, and sustainability. While Radico Khaitan is addressing its ESG concerns and CSR efforts, it needs to improve its ESG rating. United Spirits and United Breweries display stronger ESG commitments, with United Spirits having an advantage in debt management, and United Breweries emphasizing sustainability. United Spirits and United Breweries demonstrate a commitment to diversity and gender inclusion in their board compositions, while Radico Khaitan lags in this aspect. Both United Spirits and United Breweries are actively involved in CSR initiatives, with a focus on sustainability, while Radico Khaitan primarily concentrates on skill development and water literacy.
As the industry continues to navigate challenges, including evolving consumer preferences and regulatory changes, it is evident that a focus on working capital management remains paramount. The industry's ability to maintain a balance between liquidity, operational efficiency, profitability, and risk mitigation will be crucial in ensuring long-term sustainability and growth. Furthermore, the reduced reliance on debt and an emphasis on financial stability signal a commitment to building a robust foundation for future success.

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