

India
ADD (Initiating coverage)

| | |
|------------------------------|-----------------------|
| Consensus ratings*: | Buy 2 Hold 0 Sell 0 |
| Current price: | Rs1,495 |
| Target price: | Rs3,790 |
| Previous target: | NA |
| Up/downside: | 153.5% |
| InCred Research / Consensus: | 152.7% |
| Reuters: | GLOS.NS |
| Bloomberg: | GBSL IN |
| Market cap: | US\$583m Rs43,061m |
| Average daily turnover: | US\$3.1m Rs230.3m |
| Current shares o/s: | 28.8m |
| Free float: | 49.0% |

*Source: Bloomberg



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-----|-------|
| Absolute (%) | 12.6 | 1.9 | 298.6 |
| Relative (%) | 8.3 | 0.4 | 222.7 |

| Major shareholders | % held |
|---------------------------|--------|
| Promoter & Promoter Group | 51.0 |

Analyst(s)

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Globus Spirits Ltd

Ethanol to ENA - a good formula

- The structural changes in ENA and ethanol markets have turned the fortunes of GSL, with its business prospects looking better than ever before, in our view.
- New capacities at different locations coming up in short intervals excites us.
- Although it might seem the stock price has run up in the last 12 months, it is still far from optimum value, in our view.

Right product at the right time

ENA market in India witnessed a huge oversupply, leading to tremendous pressure on realization, until the announcement of ethanol policy 'National Policy on Biofuels-2018' by the central government. Overnight, huge demand for ethanol was generated. Hence, distilleries started producing ethanol instead of ENA, which forced the prices of ENA to rise to all-time highs while the manufacturing cost remained unchanged. Globus Spirits Ltd (GSL), the largest grain-based distiller in the country, benefits the most from the change in government policy. As per our study, the change is structural in nature.

The ethanol story

Currently, production capacity of ethanol in India is 4.26bnL via molasses-based distilleries and 2.58bnL via grain-based distilleries, which is proposed to be expanded to 7.60bnL and 7.40bnL, respectively. This is sufficient to produce 10.16bnL of ethanol required for the Ethanol Blending Programme and 3.34bnL for other uses. This needs 6mmt of sugar and 16.5mmt of grains per annum in ESY 2025F for producing ethanol, which Indian agriculture sector can deliver. GSL is the largest grain-based distiller in India and is embarking on massive capacity expansion going ahead. Not only does GSL benefit from the ethanol story but it leads in grain-distilling segment as well, which has greater leg room to grow.

Massive P/E re-rating likely going ahead, in our view

GSL trades at a P/E multiple of ~10x and has historically traded at a multiple of ~14x over the last five financial years. The market dynamics of the company's products have changed, resulting in ROE of an average ~34% over FY22F-24F compared to average ~8% during the decade prior to FY21. We believe there has been a structural change in the industry and the P/E multiple assigned to GSL historically will progressively change and move to at least ~25x.

Valuation and risks

We have valued GSL at 25x FY24F EPS to arrive at our TP of Rs3,790/share. Downside risks: Broken rice is mainly used to produce ENA and any increase in its price will directly impact gross profit. Also, final product prices are decided by state governments and hence, regular price hike is not a guarantee for profitability. There is already a ban on sale and consumption of alcohol in Gujarat, Bihar, Nagaland and Lakshadweep. If the governments in states that GSL operates in decide to ban or restrict the use of alcohol, it will have a direct adverse impact on the company's performance. GSL also faces execution risk as massive capacity addition is underway.

| Financial Summary | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
|-----------------------------------|---------|---------|---------|----------|---------|
| Revenue (Rsm) | 11,688 | 12,308 | 16,343 | 23,907 | 35,347 |
| Operating EBITDA (Rsm) | 1,247 | 2,547 | 3,882 | 4,746 | 6,627 |
| Net Profit (Rsm) | 499 | 1,408 | 2,341 | 3,042 | 4,366 |
| Core EPS (Rs) | 17.3 | 48.9 | 81.3 | 105.6 | 151.6 |
| Core EPS Growth | 105.0% | 182.2% | 66.2% | 30.0% | 43.5% |
| FD Core P/E (x) | 86.30 | 30.58 | 18.39 | 14.15 | 9.86 |
| DPS (Rs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Yield | 0.07% | 0.13% | 0.33% | 0.42% | 0.61% |
| EV/EBITDA (x) | 35.45 | 17.20 | 11.17 | 9.20 | 6.55 |
| P/FCFE (x) | 99.78 | 76.98 | 196.92 | (199.21) | 115.42 |
| Net Gearing | 26.3% | 13.0% | 3.9% | 5.5% | 2.4% |
| P/BV (x) | 9.63 | 7.36 | 5.35 | 3.95 | 2.87 |
| ROE | 11.8% | 27.3% | 33.7% | 32.1% | 33.7% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Ethanol to ENA - a winning formula

The Basics

Ethanol ▶

Ethanol (also called ethyl alcohol, grain alcohol, drinking alcohol, or simply alcohol) is an organic chemical compound. It is a simple alcohol with the chemical formula C_2H_6O . Its formula can be also written as CH_3-CH_2-OH or C_2H_5OH (an ethyl group linked to a hydroxyl group), and is often abbreviated as EtOH. Ethanol is a volatile, flammable, colourless liquid with a characteristic wine-like odour and pungent taste. It is a psychoactive drug, recreational drug, and an active ingredient in alcoholic drinks.

Ethanol is naturally produced by the fermentation of sugar by yeasts or via petrochemical processes such as ethylene hydration. It has medical applications, as an antiseptic and disinfectant. It is also used as a chemical solvent and in the synthesis of organic compounds. Ethanol is also a fuel source.

ENA (Extra Neutral Alcohol) ▶

ENA or rectified spirit, also known as neutral spirit, rectified alcohol or ethyl alcohol of agricultural origin, is highly concentrated ethanol that has been purified by means of repeated distillation in a process called rectification. In some countries, denatured alcohol or denatured rectified spirit may commonly be available as rectified spirit.

In undiluted form, it contains at least 55% alcohol by volume or ABV (110 US proof) in the European Union. The purity of rectified spirit has a practical limit of 97.2% ABV (95.6% by mass) when produced using conventional distillation processes, as a mixture of ethanol and water becomes a minimum-boiling azeotrope at this concentration. However, rectified spirit is typically distilled in continuous multi-column stills at 96–96.5% ABV and diluted as necessary. Ethanol is a commonly used medical alcohol, and spiritus fortis is a medical term for ethanol with 95% ABV.

Neutral spirit can be produced from grains, corn, grapes, sugar beet, sugarcane, tubers, or other fermented plant materials. A large quantity of neutral alcohol is distilled from wine. Product made from grain is "neutral grain spirit", while spirit made from grapes is called "grape neutral spirit" or "vinous alcohol". These terms are commonly abbreviated as either GNS or NGS.

Neutral spirit is used in the production of several spirit drinks such as blended whisky, cut brandy, most gins, some liqueurs and some bitters. As a consumer product, it is almost always mixed with other beverages to create drinks like alcoholic punch or Jello shots or is sometimes added to cocktails in place of vodka or rum. It is also used to make home-made liqueurs such as limoncello or cassis, and in cooking because of its high concentration of alcohol, and also acts as a solvent to extract flavours. Rectified spirits are also used for medicinal tinctures and as a household solvent. It is sometimes consumed undiluted, but as alcohol is very high proof, overconsumption can cause poisoning quickly than more traditional distilled spirits.

The difference between ethanol and ENA ▶

ENA is highly concentrated ethanol that has been purified by means of repeated distillation in a process called rectification.

What is ESY or SY ▶

ESY or SY stands for Ethanol Supply Year (Dec to Nov).

The Ethanol Story

How it began ➤

The Ethanol Blended Petrol (EBP) programme was launched by central government in Jan 2003. The goal of EBP was to promote the use of alternative and environment-friendly fuels and reduce import dependency for energy requirements. The Ministry of Petroleum & Natural Gas (MoP&NG), vide a notification dated 20 Sep 2006, directed oil marketing companies or OMCs to sell 5% ethanol blended petrol subject to commercial viability, as per Bureau of Indian Standards' specifications, in notified 20 states and four Union Territories (UTs) with effect from 1 Nov 2006.

The National Policy on Biofuels (NPB) was framed by the Ministry of New and Renewable Energy in 2009. The policy expands the scope of raw material for ethanol production by allowing the usage of sugarcane juice, sugar containing materials like sugar beet, sweet sorghum, starch containing materials like corn, cassava, damaged food grains like wheat, broken rice, and rotten potatoes unfit for human consumption, for ethanol production.

As farmers are at risk of not getting an appropriate price for their produce during the surplus production phase, the policy allows the use of surplus food grains to produce ethanol for blending with petrol, with the approval of National Biofuel Coordination Committee. The NPB was approved by the Union Cabinet in May 2018. For the first time during 2018, differential prices of ethanol based on raw material utilized for ethanol production was announced by the government. The EBP programme was extended to whole of India, except Union Territories of Andaman Nicobar and Lakshadweep Islands, with effect from 1 Apr 2019.

These decisions have significantly improved the supply of ethanol and thus ethanol procurement by public sector OMCs increased from ~380mL in Ethanol Supply Year (ESY) 2013-14 to over ~1,950mL in ESY 2019-20.

The Cabinet Committee on Economic Affairs (CCEA) in Oct 2020 increased the price of ethanol, further boosting ethanol production in the country. The price of ethanol from C heavy molasses route was increased from Rs43.75/L to Rs45.69/L, the price of ethanol from B heavy molasses route was increased from Rs54.27/L to Rs57.61/L and the price of ethanol from sugarcane juice/sugar/sugar syrup route was increased from Rs59.48/L to Rs62.65/L.

The CCEA, in Nov 2021, further increased the price of ethanol. The price of ethanol from C heavy molasses route was increased from Rs45.69/L to Rs46.66/L, the price of ethanol from B heavy molasses route was increased from Rs57.61/L to Rs59.08/L and the price of ethanol from sugarcane juice/sugar/sugar syrup route was increased from Rs62.65/L to Rs63.45/L.

Additionally, Goods and Services Tax or GST and transportation charges will also be payable. OMCs have been advised to fix realistic transportation charges so that long distance transportation of ethanol is not disincentivised in order to offer a fair opportunity to the localized industry within any state. To reduce criss-cross movement of ethanol, OMCs must decide the criteria for priority of ethanol from various sources, considering various factors like cost of transportation, availability, etc. This priority will be limited to the excisable boundaries of the state /UT for production in that state/UT. Government has reduced the GST on ethanol meant for EBP from 18% to 5% on 16 Dec 2021.

OMCs are advised to continue giving priority to ethanol produced from 1) sugarcane juice/sugar/sugar syrup, 2) B grade heavy molasses, 3) C grade heavy molasses, and 4) damaged food grains/other sources, in that order.

The CCEA, in Dec 2020, approved a modified scheme for extending interest rate subvention for those setting up grain-based distilleries along with molasses-based ethanol distilleries. The total outlay for the scheme is Rs84.6bn for increasing India's ethanol production capacity, with the scheme extended to those setting up distilleries using grain, molasses, dual feed, sugar beet, sweet sorghum,

and cereals as feedstock. The government would bear interest rate subvention for five years, including a one-year moratorium against the loan availed by project proponents from banks at 6% per annum or 50% of the rate of interest charged by banks, whichever is lower.

After inviting inputs of relevant ministries and associations, analysing progressive demand-supply projections, challenges in the manufacture of E20 vehicles and infrastructure of OMCs, Niti Aayog suggested a gradual rollout of E20 ethanol in the country to achieve the target of E20 rollout by 2025F. In the meantime, the rollout plan suggests pan-India availability of E10 from Apr 2022F for use as a protection fuel to meet the demands of existing vehicles till Apr 2025F. Niti Aayog has estimated ethanol demand at ~10.16bnL based on expected growth in vehicle population. The modelling exercise on expected penetration of electric vehicles estimates ethanol demand for petrol blending in the range of ~7.22-9.21bnL in 2025F. An expert committee formed under the chairmanship of additional secretary of Niti Aayog comprising representatives from MoP&NG (Ministry of Petroleum & Natural Gas), DHI (Department of Heavy Industries), MoRT&H (Ministry of Road Transport & Highways), DFPD (Department of Food and Public Distribution), IOCL (Indian Oil Corporation Limited), and ARAI (Automotive Research Association of India) has, however, come out with its recommendations on optimistic demand for ethanol, at ~10.16bnL to ensure that the objectives of E20 are met by 2025F.

- Current production capacity of ethanol in India of 4.26bnL derived from molasses-based distilleries, and 2.58bnL from grain-based distilleries is proposed to be expanded to 7.60bnL and 7.40bnL, respectively (as per the Roadmap for Ethanol Blending in India 2020-25 released in Jun 2021).
- This would be sufficient to produce 10.16bnL of ethanol required for EBP and 3.34bnL for other uses.
- This requires 6mmt of sugar and 16.5mmt of grain per annum in ESY 2025F for producing ethanol, which Indian agriculture can deliver, in our view.

Ethanol market – growth drivers ►

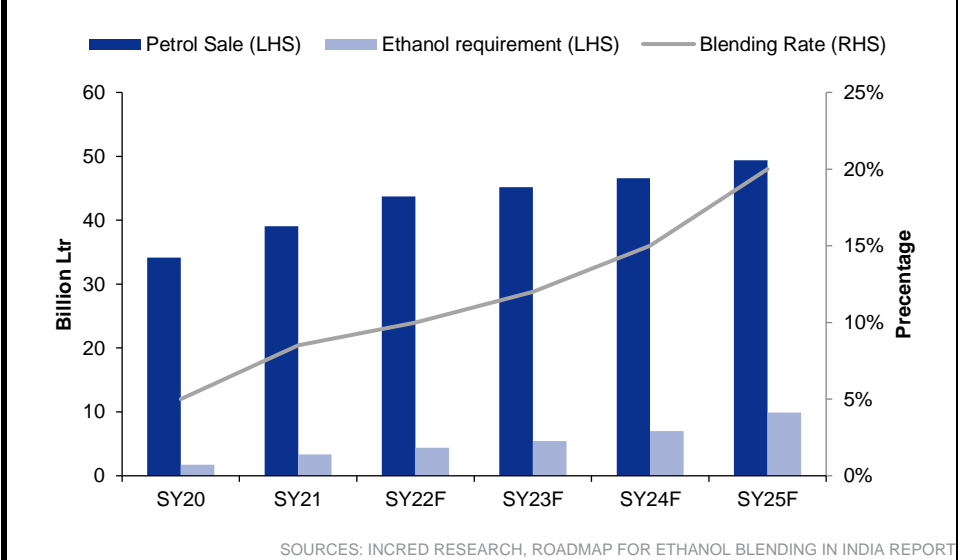
Alcoholic beverage market

Ethanol is a prominent alcoholic input, mainly found in beer, cider, wine and spirits. Factors such as changing lifestyle along with growing adoption of western culture will drive the demand for ethanol in the country, in our view. India's alcoholic beverage industry is one of the biggest alcohol industries across the globe, only behind two major countries such as China and Russia. India's alcoholic beverages market is likely to post a CAGR of 7.4% during the period 2017-2030F (according to a Goldstein Market Intelligence report). Further, the market is expected to touch US\$39.7bn by the end of forecast period as alcohol consumption is growing in urban areas of the country. Growing demand for alcoholic beverages in India is mostly attributed to the huge young population base and growing consumption of alcohol by the young generation, as well as rising disposable income, thereby strengthening the industry's growth.

Ethanol-blended fuel compatible vehicles in India

Two-wheeler and passenger vehicles currently produced in the country are designed optimally for E5 fuel, with rubber and plastic components compatible with E10 fuel, and the engine can be calibrated for E10 fuel to derive better performance. As EBP rolls out in the country, vehicles need to be produced with rubberized parts, plastic components and elastomers compatible with E20 fuel and engines optimally designed for usage of this fuel. Society of Indian Automobile Manufacturers or SIAM has assured the expert committee that was formed under the chairmanship of additional secretary, NITI Aayog, comprising representatives from MoP&NG, DHI, MoRT&H, DFPD, IOCL, and ARAI, that once a roadmap for making E10 and E20 fuel availability in the country is notified by MoPNG, it would gear up to supply compatible vehicles in line with the roadmap. It is possible to roll out E20 material-compliant vehicles by Apr 2022F and E20 engine compatible vehicles by Apr 2023F, according to the expert committee.

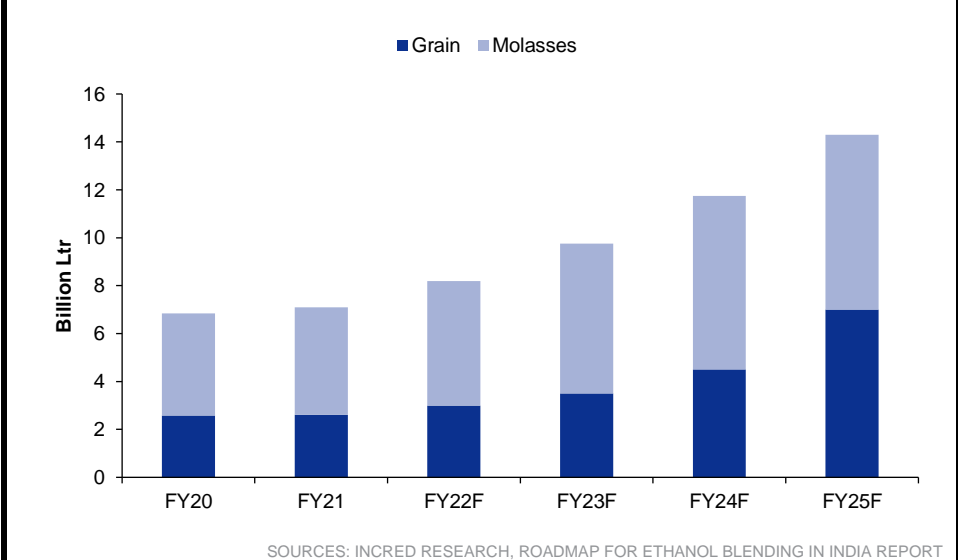
Figure 1: Ethanol demand for blending with petrol - the growth will be at a CAGR of ~31% over SY21-25F with the blending rate likely to touch 20% in SY25F



Steady source of raw materials in India

- The capacity of molasses-based distilleries has touched 4.26bnL (as per the Roadmap for Ethanol Blending in India 2020-25). 39 more projects with a total capacity of 0.93bnL are likely to be completed by Mar 2022F, which will bring cumulative capacity to about 5.19bnL. With a view to achieve blending targets, the DFPD (Department of Food & Public Distribution) is making concerted efforts to enhance ethanol distillation capacity in the country.

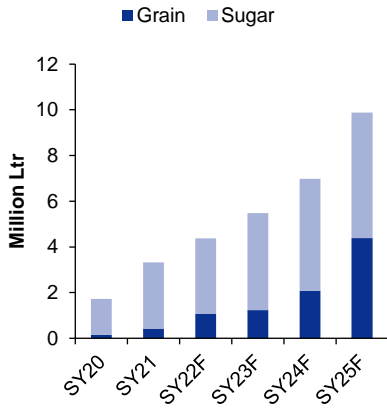
Figure 2: Addition of ethanol capacity based on raw material - CAGR will be 28% and 13% for grain & molasses, respectively, in our view



Structural opportunities in ENA >

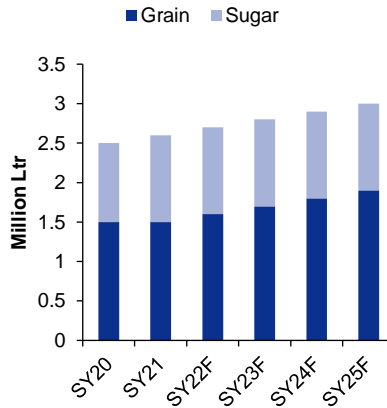
ENA market witnessed massive oversupply, leading to tremendous pressure on realization, until the announcement of the ethanol policy by the government. The policy suddenly created demand for ethanol and hence, the supply began to dwindle. ENA realization, which was ~Rs43/L over FY13-FY18, suddenly jumped to above ~Rs50/L as the base price of ethanol was set higher by the government. The uptrend in price is structural in nature as excess supply has been permanently diverted to the ethanol blending programme.

Figure 3: Ethanol requirement for blending with petrol



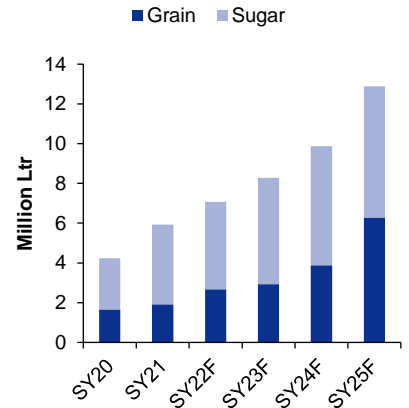
SOURCES: INCRED RESEARCH, ROADMAP FOR ETHANOL BLENDING IN INDIA REPORT

Figure 4: Ethanol requirement for usage other than blending with petrol



SOURCES: INCRED RESEARCH, ROADMAP FOR ETHANOL BLENDING IN INDIA REPORT

Figure 5: Total ethanol requirement - the growth will be ~21% CAGR over SY21-25F



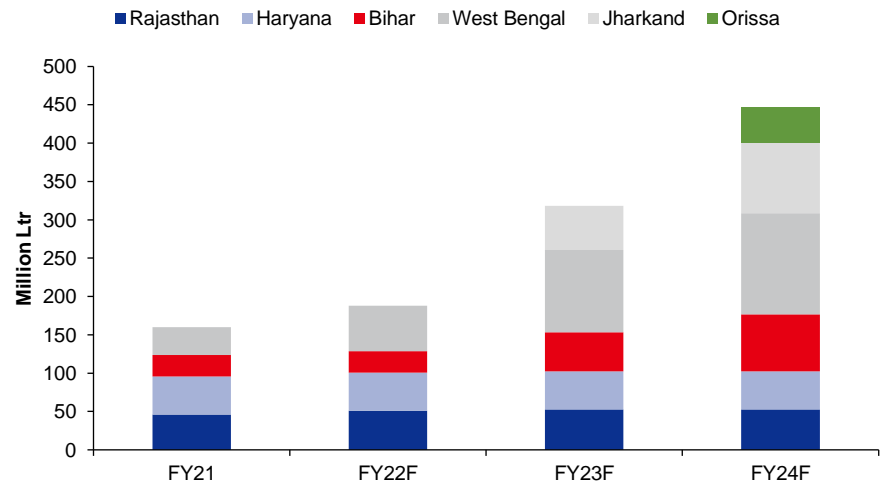
SOURCES: INCRED RESEARCH, ROADMAP FOR ETHANOL BLENDING IN INDIA REPORT

GSL's capacity augmentation

Massive capacity addition ➤

GSL is the largest grain-based distilleries in India with ~160mL of distillation capacity as at FY21-end. Its distilleries are in Rajasthan, Haryana, West Bengal, and Bihar. The company is undertaking expansion at all places, except Haryana, along with adding new plants in Jharkhand and Odisha.

Figure 6: Total distillation capacity of the company is set to rise from 160mL in FY21 to 447mL in FY24F, registering ~41% CAGR over FY21-24F

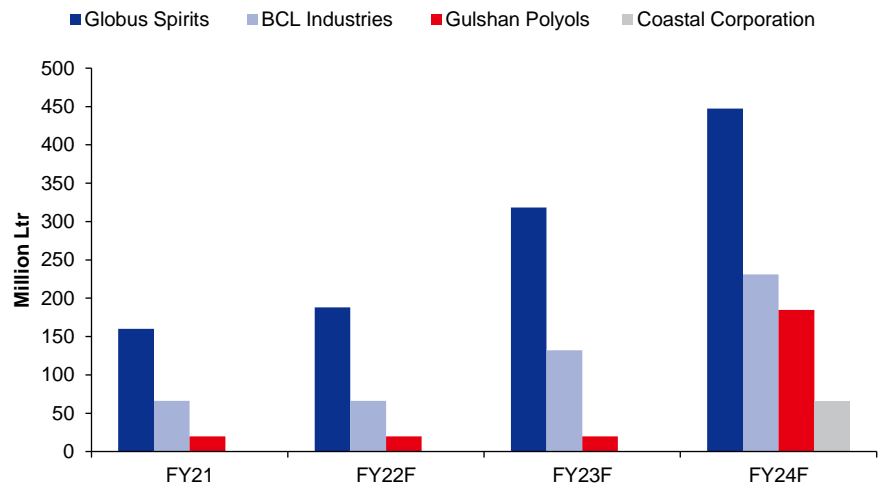


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Seals the largest position ➤

GSL is the largest grain-based distillery in India with ~160mL of distillation capacity as at FY21-end and will also remain the largest in FY24F with a capacity of ~447 mL, in our view. The industry will witness rapid capacity addition by other distilleries such as BCL Industries, Gulshan Polyols, and Coastal Corporation in the grain distillation space, but GSL is clearly the leader.

Figure 7: Comparison of capacity addition by grain-based ethanol industry players - GSL will remain the largest in foreseeable future

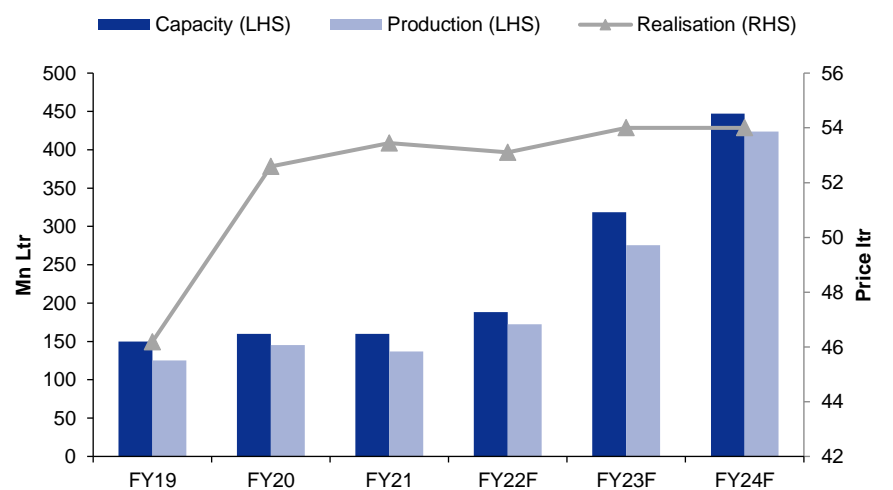


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Rapid ramp-up in production ➤

Strong demand for distillation products will enable GSL to ramp up production rapidly as and when its new capacities come on stream. Capacity will witness a 41% CAGR over FY21-24F, while production will rise by a 46% CAGR over the same period. Capacity utilization is expected to be ~95% by FY24F, in our view.

Figure 8: Steady growth seen in production once capacity expands

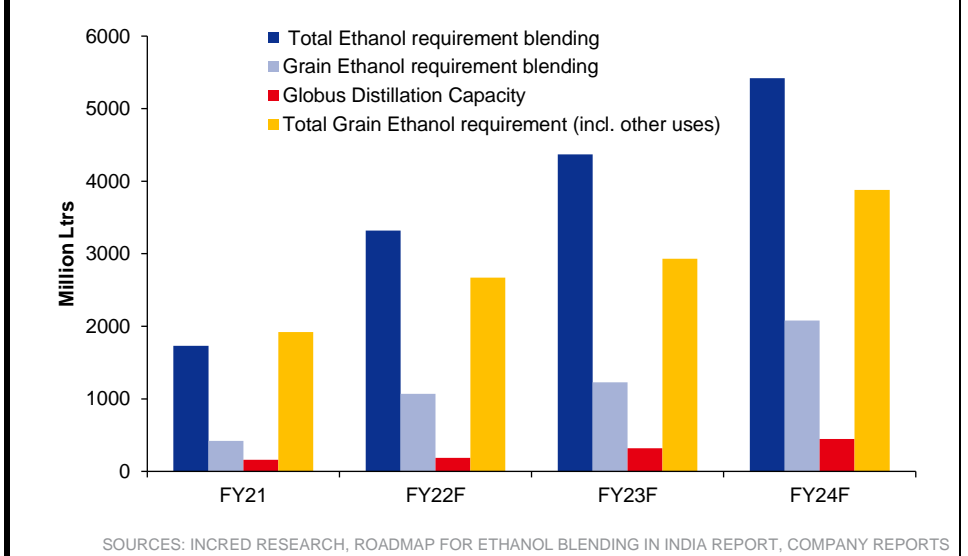


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Market share dynamics ➤

The total ethanol requirement for petrol blending in FY21 stood at 1,730mL, out of which the grain-based ethanol requirement was ~24% at 420mL, while grain-based ethanol required for usage other than blending was 1,760mL. The total addressable market in FY21 for grain-based ethanol stood at 1,920mL, with GSL accounting for ~8% of the industry (given full capacity utilization). The industry is expected to post a CAGR of 46% in ethanol blending over FY21-24F, with grain-based ethanol for blending growing at a 70% CAGR over the same period. The total grain-based ethanol demand is stated to grow at a 26% CAGR over FY21-24F, taking the demand to 3,880mL, by FY24F. GSL will have the capacity to meet 11.5% of overall grain ethanol demand, in our view.

Figure 9: Bird's eye view on size dynamics of GSL and the industry (segment-wise)



Earnings growth

Revenue and earnings growth ➤

In our view, GSL will clock a revenue CAGR of 42% over FY21-24F, compared to a 12% CAGR over FY19-21. We believe the growth will be led by a revision in realization and volume growth. The company's ENA/ethanol production volume, in our view, will post a 41% CAGR over FY21-24F as against a 3% CAGR over FY19-21.

Figure 10: Revenue growth, in our view, will be at a CAGR of 42% over FY21-24F, compared to 12% over FY19-21

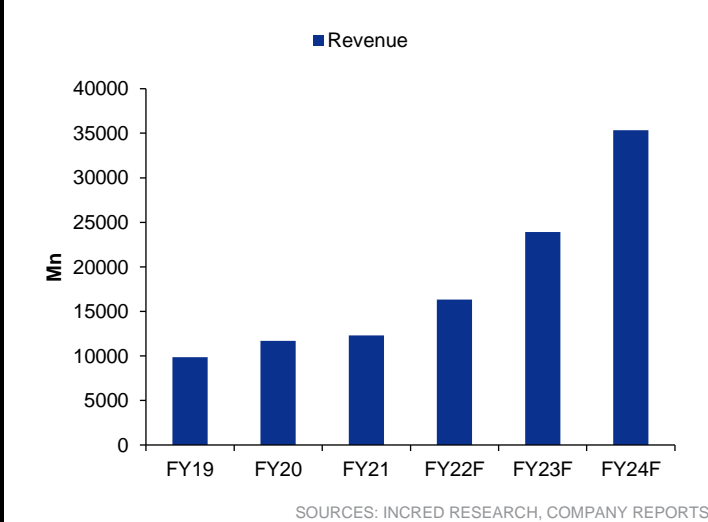
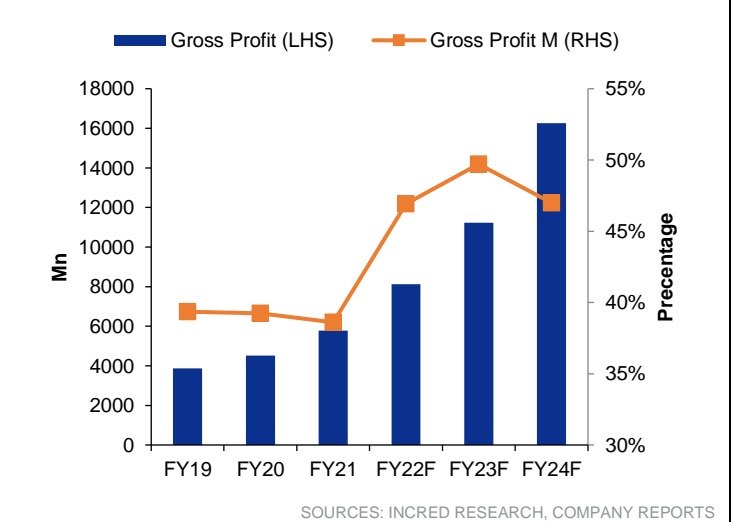
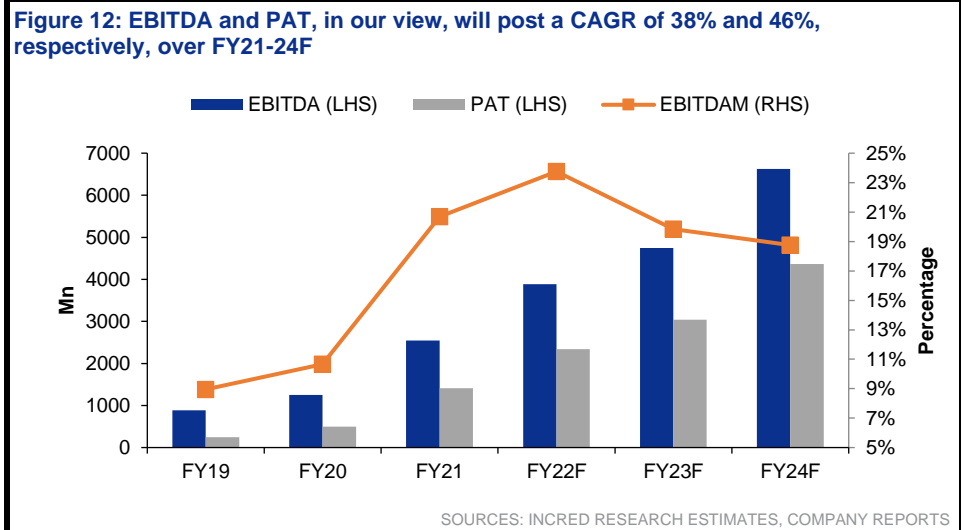


Figure 11: Gross profit growth, in our view, will be at a CAGR of 41% over FY21-24F, compared to -1% over FY19-21



EBITDA growth is likely to register a CAGR of 38% over FY21-FY24F, lower than sales growth, because of a higher percentage of commodity products due to a huge increase in capacity from its lower level in FY21.

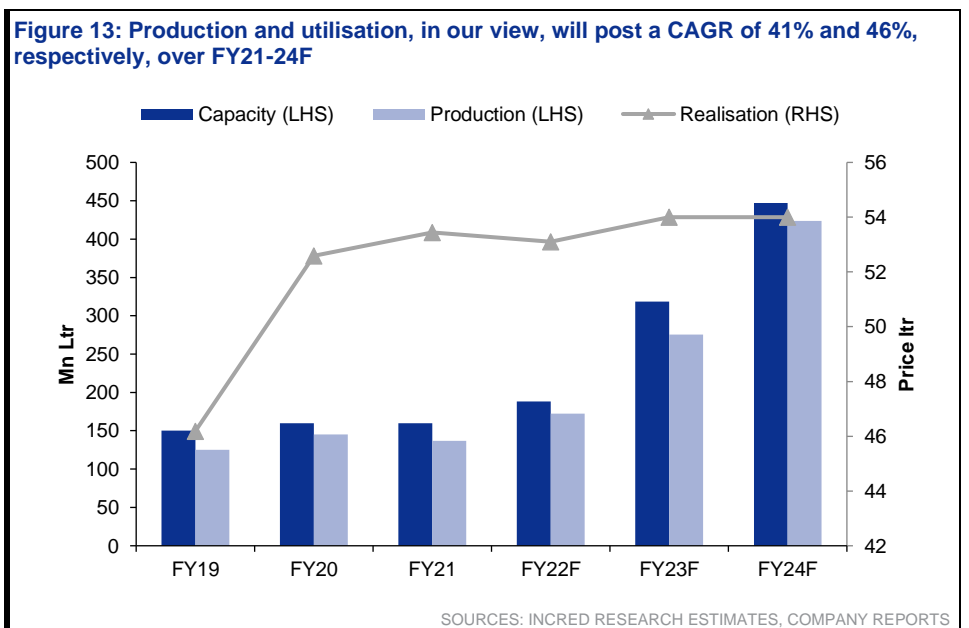


The margins of the company are dictated by its gross profit, which in turn is heavily influenced by the prices of ethanol for blending fixed by OMCs.

OMCs have fixed the price of ethanol from damaged food grains at Rs52.92/L, an increase of Rs1.37/L from the previous ethanol supply year (SY) or SY21, which will aid gross profit margin going ahead. We estimate a PAT CAGR of 46% over FY21-FY24F, higher than EBITDA growth, mainly on account of lower finance cost and a lower tax rate.

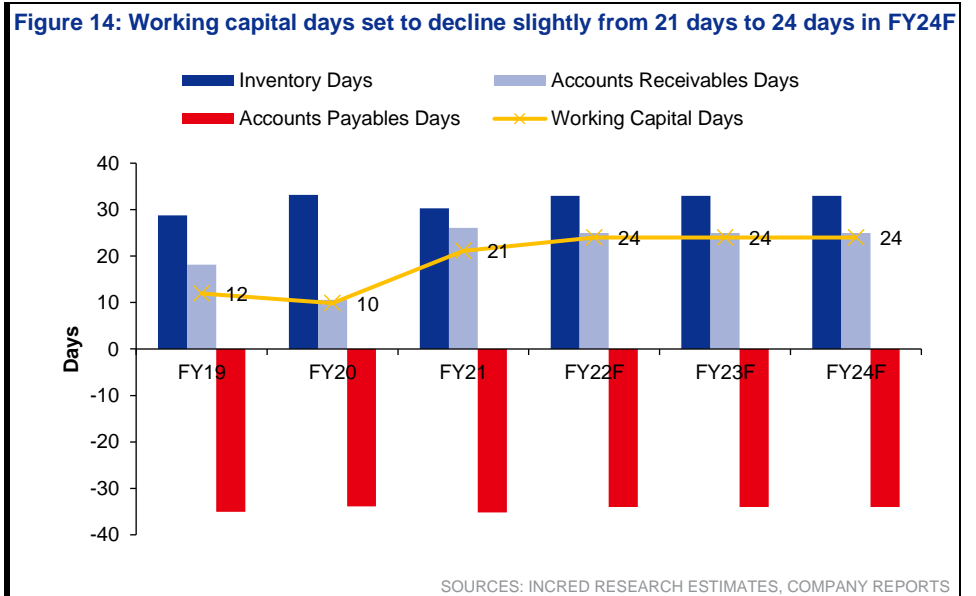
Key assumptions ➤

Volume, in our view, will post a 46% CAGR over FY21-FY24F to touch 424mL due to higher capacity utilization (likely to touch 95% by FY24F) and capacity addition (likely to touch 447mL by FY24F), given the demand for ENA and ethanol. Prices of bulk alcohol of the company, in our view, will keep rising over the years, but the quantum is hard to estimate. For projection purpose, we have kept the rate flat at ~Rs54/L due to likely higher volume push by the company while entering newer markets, although price appreciation is more likely given the circumstances in grain-based ethanol, due to the ethanol blending programme.



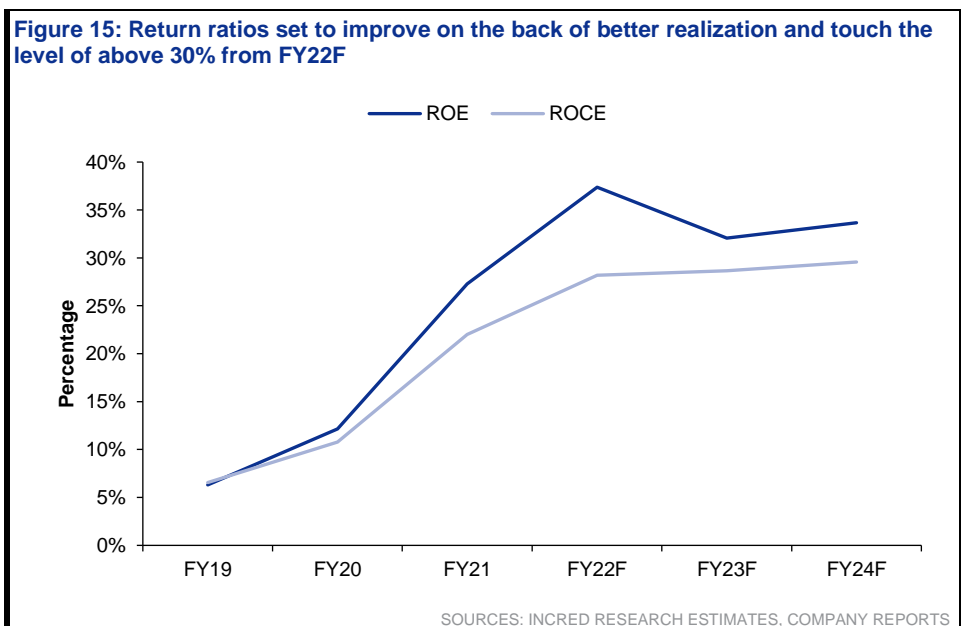
Cashflow movement ➤

Working capital days have steadily moved up from 12 days in FY19 to 21 days in FY21. This is because of the company moving into newer products and markets. In our view, working capital days will further move to 24 days in FY24F from 21 days in FY21, as the capacity ramps up. We project the bulk alcohol segment's revenue growth to post a 53% CAGR and the others segment's growth at a 32% CAGR in FY21-24F. The revenue contribution of the bulk alcohol segment will increase from 41% in FY21 to 55% in FY24F, in our view. As newer markets are entered, inventory and debtor days are likely to increase, leading to an increase in the working capital cycle.



Return ratios ➤

We estimate the company's return ratios to improve significantly on the back of healthy utilization of assets by FY24F. The improvement in return ratios is likely to be driven by higher asset utilization and better realization for end products. ROE and ROCE will improve from 12% and 11%, respectively, in FY20 to 34% and 30%, respectively, in FY24F, in our view.



Valuation & Risk

Valuation >

- GSL stock trades at a P/E of ~10x FY24F.
- In our view, GSL has been one of the fastest-growing IMIL players, rapidly expanding into ENA and is likely to become an ENA and IMIL giant, in terms of volume and value, with a multi-state presence in India.
- The company has largest grain distillation capacity and a multi-state presence. It is on path to further add to its capacities and expand into other states, thus transforming a volatile business into a progressively growing business with clear market leadership.
- GSL's stock price has remained buoyant during the past 12 months due to structural changes in the industry, after being stagnant since its IPO in FY10 for a decade because of headwinds faced by the industry, like continuous increase in raw material costs driven by minimum support prices (MSP) in agriculture sector and the ban on alcohol in some states.
- We initiate coverage on GSL with an ADD rating and a TP of Rs3,790/share based on a P/E of 25x year-ending Mar 2024F EPS of ~Rs152.
- GSL has traded in a P/E band of 10-38x over FY16-21, peaking at 38x in FY17. We have ADD rating on the stock due to strong and lean balance sheet of the company as well as rising focus of the government on ethanol blending for which the company has embarked on capacity expansion and geographical expansion that would help in generating even better growth, in our view. We have assigned a P/E multiple of 25x year-ending Mar 2024F EPS to GSL, a 76% premium to its historical average, to arrive at our target price.
- We believe the valuation is justified given i) the structural change in the industry leading to better realization, ii) massive ethanol/ENA capacity addition, iii) a multi-state presence, iv) expansion in IMIL (Indian Made Indian Liquor) and IMFL (Indian Made Foreign Liquor) segments, and v) strong cash flows. We remain confident of the company's ability to scale up faster than market expectations.

Figure 16: One-year forward P/E



Figure 17: Peer comparison

| Company | Bloomberg Ticker | Closing Price (LC) | Target Price (LC) | % Upside | Rating | Market Cap (US\$ m) | EPS | | | ROE% | | | P/E | | |
|--|------------------|--------------------|-------------------|----------|--------|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | | | | | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F | FY22F | FY23F | FY24F |
| Avadh Sugar & Energy Ltd** | AVADHSUG IN | 521 | NA | NA | NR | 141 | 65 | 84.7 | NA | NA | NA | NA | 8.0 | 6.2 | NA |
| Bajaj Hindustan Sugar Ltd** | BJH IN | 17 | NA | NA | NR | 291 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Balrampur Chini Mills Ltd** | BRCM IN | 418 | NA | NA | NR | 1154 | 27.9 | 34.74 | NA | NA | NA | NA | 15.0 | 12.0 | NA |
| Bannari Amman Sugars Ltd** | BHRI IN | 2802 | NA | NA | NR | 475 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| BCL Industries Ltd* | BCLIL IN | 328 | 782 | 138% | ADD | 107 | 34.8 | 55.3 | 84.4 | 26.1% | 31.4% | 34.8% | 9.4 | 5.9 | 3.9 |
| Coastal Corporation Ltd* | CTW IN | 305 | 1852 | 507% | ADD | 44 | 24.7 | 44.2 | 102.9 | 15.1% | 22.0% | 36.2% | 12.3 | 6.9 | 3.0 |
| Dalmia Bharat Sugar Ltd** | DALBHARA IN | 1931 | NA | NA | NR | 462 | 59 | 75.9 | NA | NA | NA | NA | NA | NA | NA |
| DCM Shriram Inds Ltd** | DCMSI IN | 98 | NA | NA | NR | 115 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Dhampur Sugar Mills Ltd** | DSM IN | 332 | NA | NA | NR | 297 | 42.7 | 50.2 | NA | NA | NA | NA | 7.8 | 6.6 | NA |
| Dwarikesh Sugar Industries Ltd** | DSIL IN | 87 | NA | NA | NR | 221 | 10 | 11.1 | NA | NA | NA | NA | 8.7 | 7.8 | NA |
| E.I.D Parry India Ltd** | EID IN | 476 | NA | NA | NR | 1141 | 54.6 | 69.8 | NA | NA | NA | NA | 8.7 | 6.8 | NA |
| Globus Spirits Ltd* | GBSL IN | 1486 | 3790 | 155% | ADD | 578 | 81.3 | 105.6 | 151.6 | 33.7% | 32.1% | 33.7% | 18.3 | 14.1 | 9.8 |
| Gulshan Polyols Ltd* | GULP IN | 316 | 898 | 184% | ADD | 200 | 21.6 | 25 | 64.1 | 24.9% | 23.2% | 43.4% | 14.6 | 12.6 | 4.9 |
| IFB Agro Industries Ltd** | IFBA IN | 701 | NA | NA | NR | 89 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| India Glycols Ltd** | IGLY IN | 961 | NA | NA | NR | 402 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| KPR Mills Ltd** | KPR IN | 715 | NA | NA | NR | 3328 | 22 | 25.13 | NA | NA | NA | NA | 32.5 | 28.5 | NA |
| Magadh Sugar Ltd** | MGDH IN | 292 | NA | NA | NR | 56 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Mawana Sugars Ltd** | MWNS IN | 85 | NA | NA | NR | 45 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Shree Renuka Sugars Ltd** | SHRS IN | 33 | NA | NA | NR | 959 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Triveni Engineering & Industries Ltd** | TRE IN | 250 | NA | NA | NR | 816 | 19.55 | 23.9 | NA | NA | NA | NA | 12.8 | 10.5 | NA |
| Vishwaraj Sugar Ltd** | VISHWARA IN | 27 | NA | NA | NR | 69 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Median | | | | | | | | | | 25.0% | 27.2% | 37.0% | 13.47 | 10.72 | 5.40 |

SOURCES: INCRED RESEARCH ESTIMATES*, BLOOMBERG CONSENSUS ESTIMATES**, PRICED AS AT 7TH JAN 2022, NA= NOT APPLICABLE, NR= NON RATED

Risks ➤

- Raw material cost:** The main raw material used to produce ENA is broken rice. Any increase in the price of broken rice will directly impact gross profit margin.
- Government-set product prices:** The final product prices are decided by respective state governments and hence, regular price hike is not a guarantee for profitability.
- Prohibition:** There is a ban on sale and consumption of alcohol in Gujarat, Bihar, Nagaland and Lakshadweep. If the governments in the states (where GSL operates) imposes a ban or restricts the use of alcohol, it will have a direct adverse impact on the company's performance.
- Execution risk:** The company carries execution risk, although lower than most other ethanol players, as most of its expansions are brownfield.

Business description and management profile

Company profile ➤

Globus Spirits Limited (GSL), led by Mr. Ajay Swarup, is a liquor company with a unique model that is spread across the entire alcohol value chain. It is among the largest and most efficient grain-based distilleries in India with ~160mL of distillation capacity. The company's distilleries are located in Rajasthan, Haryana, West Bengal and Bihar. In IMIL segment, GSL holds 29%, 9% and 2% market share in Rajasthan, Haryana and West Bengal, respectively. The company also bottles for top three IMFL companies in India. Through Unibev, the company is establishing its presence in IMFL segment, in which it is following an asset-light model. Unibev has forayed into 10 states and is growing its footprint in other states as well.

The business of GSL can be divided into two parts: manufacturing business and consumer business.

Manufacturing business

The manufacturing business revenue comprises of (a) bulk alcohol manufacturing and (b) franchisee IMFL (third-party bottling). Bulk alcohol division is the backbone of GSL’s 360° business model and provides high quality Extra Neutral Alcohol (ENA) to other divisions, ensuring a sustainable competitive advantage. After meeting the requirement of consumer business and franchisee bottling, the remaining production is sold outside.

The by-product revenue growth is despite an overall increase in production volume as distilleries’ dried grain with solubles (DDGS) realization showed a healthy growth. The market prospects for DDGS remain promising and while offtake is not a concern, prices are volatile due to linkage to soya which is an agricultural commodity. The company’s relationships with its customers remain strong, backed by robust management and performance reporting systems, which coupled with captive high quality ENA, gives unmatched value to top IMFL companies. The company has bottling contracts with ABD India in Rajasthan and with United Spirits in Haryana and West Bengal to manufacture their respective flagship brands.

Consumer business

The consumer business comprises largely Indian Made Indian Liquor. The company is among the largest IMIL players having more than 5% market share on all-India basis. Through its efforts to reinvent a traditional and commoditized market, GSL has established itself as a leading player in two of the large North Indian markets – Haryana and Rajasthan. With competitive intensity increasing, the company has decided to focus on building strong brands with unique value proposition for bottom-of-the-pyramid consumers.

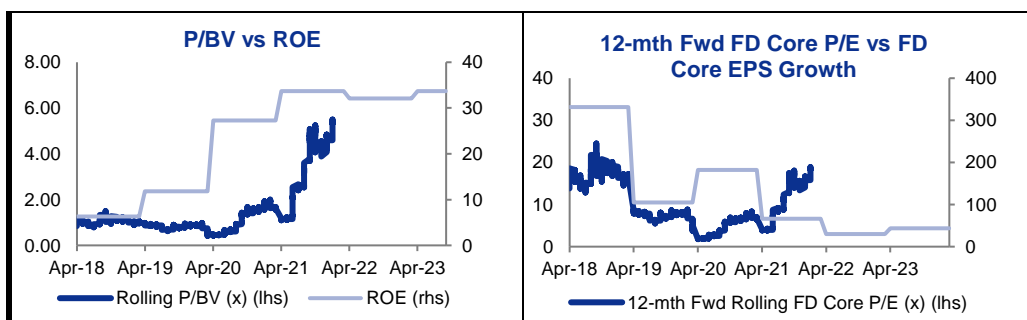
Management ➤

Figure 18: Key management profile (as at FY21-end)

| Name | Designation | Profile |
|---------------------|---|---|
| Ajay K. Swarup | Managing Director | He graduated in B.A.(Honours) Economics from St. Stephens College, Delhi University, and PGDBM from the Indian Institute of Management, Kolkata, and having more than 35 years of expertise in alcohol Industry. |
| Shekhar Swarup | Joint Managing Director Executive Director | He has completed his schooling from The Doon School, Dehradun, and is a graduate in Business Management from the University of Bradford, UK. |
| Dr. Bhaskar Roy | Chief Operating Officer and Interim CFO | He is a Chartered Accountant and Doctorate in Commerce and has over 30 years of experience in the areas of Strategic Financial Planning, Fund Management, Accounts, Auditing, Budgeting and MIS. He has expertise in designing internal control systems for accomplishment of corporate business goals, is a keen analyst with relationship management skills and has ability to liaison with banks, financial Institutions and other external agencies. |
| Paramjit Singh Gill | CEO, Consumer Division | Mr. Paramjit Singh Gill joined Globus Spirits Limited in Nov 2020. Mr. Gill is an enterprising leader, bringing a strong track record of over 30 years of progressive experience in planning and executing strategies leading to augmented organizational efficiency and top-line & bottom-line growth in the FMCG industry in India and abroad. While he served as the President & CEO at Allied Blenders & Distillers Ltd. (ABD), he led the most successful launch in the Indian market in recent years with Sterling Reserve whisky clocking a 7% alcohol industry market share in two years. Prior to ABD, he was President - All India Operations, at Diageo India. |

SOURCES: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
|---|---------|---------|---------|---------|---------|
| Total Net Revenues | 11,688 | 12,308 | 16,343 | 23,907 | 35,347 |
| Gross Profit | 4,512 | 5,776 | 8,123 | 11,236 | 16,260 |
| Operating EBITDA | 1,247 | 2,547 | 3,882 | 4,746 | 6,627 |
| Depreciation And Amortisation | (380) | (407) | (438) | (602) | (715) |
| Operating EBIT | 867 | 2,140 | 3,444 | 4,144 | 5,911 |
| Financial Income/(Expense) | (198) | (123) | (84) | (33) | (11) |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 669 | 2,018 | 3,360 | 4,111 | 5,900 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 669 | 2,018 | 3,360 | 4,111 | 5,900 |
| Taxation | (172) | (610) | (1,019) | (1,069) | (1,534) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 497 | 1,408 | 2,341 | 3,042 | 4,366 |
| Minority Interests | 2 | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 499 | 1,408 | 2,341 | 3,042 | 4,366 |
| Recurring Net Profit | 499 | 1,408 | 2,341 | 3,042 | 4,366 |
| Fully Diluted Recurring Net Profit | 499 | 1,408 | 2,341 | 3,042 | 4,366 |

Cash Flow

| (Rs mn) | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
|----------------------------------|---------|---------|---------|---------|---------|
| EBITDA | 1,247 | 2,547 | 3,882 | 4,746 | 6,627 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | 190 | (966) | 404 | (645) | (975) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 67 | 491 | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | 23 | 23 | 26 | 2 | 6 |
| Tax Paid | (172) | (610) | (1,019) | (1,069) | (1,534) |
| Cashflow From Operations | 1,355 | 1,485 | 3,293 | 3,034 | 4,123 |
| Capex | (390) | (892) | (2,502) | (3,000) | (3,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 1 | | | (100) | (600) |
| Cash Flow From Investing | (390) | (892) | (2,502) | (3,100) | (3,600) |
| Debt Raised/(repaid) | (534) | (33) | (573) | (150) | (150) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | | 58 | 140 | 183 | 262 |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (804) | (290) | (781) | (185) | (177) |
| Cash Flow From Financing | (1,338) | (266) | (1,214) | (152) | (65) |
| Total Cash Generated | (372) | 327 | (422) | (218) | 458 |
| Free Cashflow To Equity | 432 | 559 | 219 | (216) | 373 |
| Free Cashflow To Firm | 966 | 592 | 791 | (66) | 523 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
| Total Cash And Equivalents | 200 | 581 | 451 | 18 | 112 |
| Total Debtors | 338 | 879 | 1,119 | 1,637 | 2,421 |
| Inventories | 1,063 | 1,021 | 1,478 | 2,161 | 3,196 |
| Total Other Current Assets | 163 | 556 | 181 | 257 | 371 |
| Total Current Assets | 1,764 | 3,038 | 3,229 | 4,074 | 6,100 |
| Fixed Assets | 5,979 | 6,264 | 8,326 | 10,725 | 13,009 |
| Total Investments | | | | 100 | 700 |
| Intangible Assets | 6 | 4 | 6 | 6 | 6 |
| Total Other Non-Current Assets | 245 | 614 | 245 | 359 | 530 |
| Total Non-current Assets | 6,229 | 6,882 | 8,578 | 11,189 | 14,245 |
| Short-term Debt | 45 | 273 | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 1,755 | 2,037 | 2,372 | 3,076 | 4,142 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 1,800 | 2,309 | 2,372 | 3,076 | 4,142 |
| Total Long-term Debt | 1,328 | 1,067 | 767 | 617 | 467 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 65 | 107 | | | |
| Total Non-current Liabilities | 1,393 | 1,174 | 767 | 617 | 467 |
| Total Provisions | 336 | 592 | 615 | 656 | 719 |
| Total Liabilities | 3,529 | 4,076 | 3,753 | 4,349 | 5,328 |
| Shareholders Equity | 4,473 | 5,853 | 8,054 | 10,913 | 15,018 |
| Minority Interests | (9) | (9) | | | |
| Total Equity | 4,464 | 5,844 | 8,054 | 10,913 | 15,018 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-20A | Mar-21A | Mar-22F | Mar-23F | Mar-24F |
| Revenue Growth | 18.6% | 5.3% | 32.8% | 46.3% | 47.9% |
| Operating EBITDA Growth | 41.4% | 104.2% | 52.4% | 22.2% | 39.6% |
| Operating EBITDA Margin | 10.7% | 20.7% | 23.8% | 19.9% | 18.7% |
| Net Cash Per Share (Rs) | (40.72) | (26.34) | (10.97) | (20.80) | (12.31) |
| BVPS (Rs) | 155.32 | 203.24 | 279.65 | 378.94 | 521.46 |
| Gross Interest Cover | 3.68 | 11.37 | 31.15 | 119.76 | 218.15 |
| Effective Tax Rate | 25.7% | 30.2% | 30.3% | 26.0% | 26.0% |
| Net Dividend Payout Ratio | 5.8% | 4.1% | 6.0% | 6.0% | 6.0% |
| Accounts Receivables Days | 12.94 | 18.05 | 22.32 | 21.05 | 20.95 |
| Inventory Days | 46.81 | 58.24 | 55.49 | 52.41 | 51.22 |
| Accounts Payables Days | 51.67 | 63.49 | 60.16 | 54.00 | 52.77 |
| ROIC (%) | 13.9% | 35.4% | 47.2% | 46.1% | 49.0% |
| ROCE (%) | 14.7% | 31.9% | 40.7% | 38.7% | 42.2% |
| Return On Average Assets | 8.9% | 17.1% | 22.3% | 22.7% | 24.6% |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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