

Globus Spirits

Date: 8th August'21

Brief Financials:

| | | | | | | | |
|---------------------|---------|-------------------------|--------|---------------------------|------|--------------------------|----------|
| Market Cap | 2128crs | ROE | 27.3% | Sales Growth 5 yrs | 12% | Promoters Holding | 56% |
| CMP | 739 | ROCE | 32.6% | PAT Growth 5 Yrs | 70% | Pledged | NIL |
| 52w High/Low | 763/119 | Working Cap days | 21days | Sales Growth 3 yrs | 13% | Auditors | Deloitte |
| TTM P/E | 15 | D/E | 0.24 | PAT Growth 3 Yrs | 190% | | |

Investment Thesis:

We see Globus Spirits as an opportunistic play on the deficit in ENA supply and rising ethanol demand, together driving demand higher with high and stable margins. Co' is doubling its grain-based distillery capacity to 31crs ltrs by FY23e, all of which will be fully utilised by FY24e with over 18-20% margin. This incremental capacity is fully fungible between ethanol and ENA, which will allow it to opportunistically shift to make better margins. Incremental capex is coming at a very attractive Rs 0.8cr/KLPD, one of the lowest in the industry. Separately, as ENA capacities are getting diverted to ethanol requirements, ENA realisations have improved and are likely to remain so as long as the deficit situation persists, which we expect to last for next 2-3years. Consumer business (country liquor) volumes will continue to grow steadily and has 50%+ higher contribution margin over ENA/Ethanol. Overall we see strong cumulative cash flow generation of over 800crs over next 3 years vs 314crs over the past 3 yrs. Despite the run up recently, for an ROCE / ROE profile of over 30% / 25%, the stock is still trading attractively at 8x FY23 PE, 5x EV/EBITDA and over 6% FCF Yield.

Key Points on Business Outlook:

- 3x Ethanol capacity addition at minimal capex:
Co' is expanding its grain-based distillery from 16cr ltrs per annum to 31crs ltrs over next two years. Currently, only 5cr ltrs out of 16cr ltrs is fungible while additional capacity will be fully fungible between ENA and Ethanol. West Bengal and Bihar capacity is coming in at Rs 0.80cr/KLPD being brownfield expansion vs 1.3cr/KLPD for other distilleries. This will entail a capex of 225crs over next two years. Besides they are putting up a greenfield plant of 140KLPD at Rs125cr by FY23e. At this capacity, it will still be at just 10% of the grain-based ethanol market. This gives us confidence that the management might look for further expansion beyond FY23, once this round of capex is over and the high profitability will support that.

| Particulars (in crs) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|---------|---------|---------|---------|---------|---------|---------|-------|
| Capacity in cr ltrs | 10.58 | 12.37 | 15 | 16 | 16 | 19.8 | 30 | 30 |
| <i>of which Ethanol capacity (cr ltrs)</i> | | | | | 5 | 8.5 | 16 | 16 |
| State wise Capacity Break-up: | 320KLPD | 370KLPD | 450KLPD | 490KLPD | 490KLPD | 650KLPD | 940KLPD | |
| Haryana | | | | 160KLPD | 160KLPD | 160KLPD | 160KLPD | |
| West Bengal | | | | 110KLPD | 110KLPD | 250KLPD | 250KLPD | |
| Bihar | | | 80KLPD | 80KLPD | 80KLPD | 80KLPD | 220KLPD | |
| Rajasthan | | | | 140KLPD | 140KLPD | 160KLPD | 160KLPD | |
| Jharkhand | | | | - | - | - | 140KLPD | |

- Strong ENA realisations and margins in near term due to deficit:

After the expansion, Co' will have ENA capacity of 15cr litres assuming 75% additional fungible capacity is utilised for Ethanol as guided by management. With ENA shortage looming, its prices have moved up from around Rs 43/litre a year back to Rs58/litre recently due to ethanol demand displacing the ENA market, leading to deficit in ENA supply. This trend is likely to remain over next 2-3 years till additional supply comes in. Higher stable realisation will keep the margins high and steady. Below is United Spirits' CFO on ENA prices in the near term during its Q1FY22 concall:

Pradeep Jain

So on this one, I mean our own assessment is that over a period of time, right, fundamental economics will prevail, right, as this becomes very, very attractive for the ethanol manufacturers, right, or for the ENA manufacturers. We also expect a lot of capacity to come up. So while in the shorter term we could see some inflation headwinds, but over a slightly extended period of time, we believe that as additional capacity comes up, et cetera, the market will find its right balance. So over a longer term, we don't see any big worry on this front. In the shorter term, you're right, right, we could face some inflation headwinds, which we will always, like any forward-looking company, manage through a combination of ongoing productivity and pricing.

- Higher capacity utilisation leading to better margins:

Due to Covid lockdowns, Co' operated at 86% utilisations in FY21 while during Q4FY21, Co' operated at 99% utilisation and generated 25% EBITDA margins. Given the deficit in the near term as Liquor consumption increases on economy opening up along with ethanol demand, we expect Co' to maintain 95%+ utilisation, which will help them to sustain higher margins for longer period. Ethanol manufactured through grain-based distilleries currently amounts to 260 crore litres (35% of targeted capacity by FY25). A significant capacity is yet to come in to meet the govt's ethanol targets by FY25-26. So the demand-supply dynamics will continue to favour ENA/ethanol producers, driving both demand and pricing in their favor

- IMIL volumes picking up led by new product introduction:

Co' has introduced new products like Rajasthan Medium Liquor (Rs 70-80 for 180ml) but priced at lower end of IMFL (Rs125-130 for 180ml), major reason for growth of Consumer business last year. Co' has recently restarted selling in Delhi (0.6mn cases p.a). IMFL consumers downtrading to IMIL can sustain in the near term due to high excise duties by States due to Covid. Overall consumer demand for liquor will remain steady going forward. Besides, this segment makes over 50% higher gross margins for the company, aiding higher margins, going forward.

Overall we are expecting that with doubling of the capacity by FY23, the revenue is also likely to double by FY24, while margins will sustain at ~20% for the foreseeable future. With wcap days at just 30days, the higher profitability should drive significantly higher cashflows over FY22-24e.

- Strong Cash flow generation:

EBITDA have grown by almost 4x over past five years and Avg. CFO/EBITDA have been 82% partly aided by low tax cash outgo as Co' benefits from 80IA deduction on biomass-based power plant and MAT credit availability for next two-three years based on management estimates. We expect cumulative cash flows of over Rs 800crs over next 3 yrs, which will not only fund the capacity expansion, but also it debt free. Even on our scenario of margins dropping to 15%, it will still be able to pay for the capex and reduce the debt. This implies the company transitioning to a very strong balance sheet and cashflow position over the next 3years.

- Promoter's increasing holdings:
Promoters have done creeping acquisition from the market by acquiring 1.5% over past two years. Total promoter holding is now at 56% with no pledge outstanding.
- Valuation:
Stock is trading at 4.5x FY24 EV/EBITDA which we feel is very compelling for superior ROCEs of 30% and significant cash flow generation. Even on FCF, the yield currently is over 6% on FY23 basis and 14% on FY24 estimates. Despite the recent run up, it makes sense to add this stock to your portfolio as the downside is limited.

| INR-Crores | FY18 | FY19 | FY20 | FY21(P) | FY22E | FY23E | FY24E |
|-----------------------------|------|------|------|---------|-------|-------|-------|
| Capital Efficiency % | | | | | | | |
| ROCE | 6% | 9% | 15% | 31% | 31% | 34% | 34% |
| ROIC | 11% | 14% | 22% | 39% | 39% | 42% | 42% |
| ROE | 2% | 6% | 11% | 24% | 25% | 25% | 20% |
| | | | | | | | |
| Profit metrics % | | | | | | | |
| EBITDA % | 8% | 9% | 11% | 21% | 22% | 22% | 20% |
| PAT % | 1% | 2% | 4% | 11% | 14% | 14% | 13% |
| OCF/EBITDA % | 81% | 35% | 109% | 58% | 70% | 75% | 75% |
| | | | | | | | |
| Valuation | | | | | | | |
| Mcap | | | | 2,099 | 2,045 | 2,045 | 2,045 |
| EV | | | | 2,217 | 2,127 | 2,013 | 1,776 |
| NW | | | | 585 | 774 | 1,019 | 1,263 |
| PE | | | | 14.9 | 10.5 | 8.1 | 8.1 |
| PB | | | | 3.6 | 2.6 | 2.0 | 1.6 |
| EV/EBITDA | | | | 8.7 | 6.8 | 5.1 | 4.5 |
| OCF Yield % | | | | 2.8% | 2.4% | 6.3% | 14.0% |

Risks:

- Rajasthan imposing ban on sale of liquor. Approx. 50% of profitability of the Co' comes through consumer business in Rajasthan. However, this will get de-risked over the next 3years as new capacity comes up and ethanol demand is met
- Rajasthan/Haryana/West Bengal increasing VAT or sales tax or surcharge on ENA or Indian Made Indian Liquor (IMIL). However, consumer liquor business has usually remained steady inspite of higher taxes in the past.
- ENA realisations declining significantly due to quicker supply than anticipated. The risk of this are still some time away
- Change in govt policies on Ethanol. We see a longer term risk to Ethanol pricing once enough supply comes through in the system. However, this is not a risk for the next 2-3 years
- Consumers upgrading from IMIL to IMFL. Illegal ENA units being set up or black marketing of ENA. Globus is a key supplier of ENA to several spirits manufacturer in India and so we see lower risk to its ENA demand

Peer Comparison:

Globus Spirits is cheap amongst all parameters and offers the highest ROCEs.

| Particulars | P/E | | | EV/EBITDA | | | ROCE | | |
|-----------------|------|-------|-------|-----------|-------|-------|------|-------|-------|
| | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| United Spirits | 104 | 60 | 41 | 49 | 36 | 26 | 24 | 29 | 28 |
| Radico Khaitan | 38 | 34 | 28 | 25 | 22 | 18 | 18 | 18.7 | 21 |
| Balrampur Chini | 16 | 13 | 10 | 11 | 9 | 8 | 17 | 19 | 20 |
| Globus Spirits | 15 | 10.5 | 8.1 | 8.7 | 6.8 | 5.1 | 31 | 31 | 34 |

Detailed Financials:

Profit & Loss Statement:

| INR-Crores | FY-18 | FY-19 | FY-20 | FY-21(U) | FY-22E | FY-23E | FY24-E |
|-------------------------|-------|-------|-------|----------|--------|--------|--------|
| INCOME STATEMENT | | | | | | | |
| Net Revenue | 855 | 986 | 1,169 | 1,231 | 1433 | 1797 | 1993 |
| EBITDA | 69 | 88 | 124 | 255 | 315 | 395 | 398 |
| <i>EBITDA %</i> | 8% | 9% | 11% | 20.7% | 22.0% | 22.0% | 20.0% |
| PAT | 6 | 24 | 50 | 141 | 195 | 252 | 252 |
| EPS | 2 | 8 | 17 | 49 | 68 | 87 | 87 |

Balance Sheet:

| INR-Crores | FY-18 | FY-19 | FY-20 | FY-21(U) | FY-22E | FY-23E | FY24-E |
|----------------------|-------|-------|-------|----------|--------|--------|--------|
| BALANCE SHEET | | | | | | | |
| Networth | 373 | 398 | 447 | 585 | 774 | 1,019 | 1,263 |
| Gross Debt | 252 | 230 | 178 | 176 | 151 | 71 | - |
| Cash | 2 | 3 | 20 | 58 | 68 | 103 | 269 |
| Net Debt | 249 | 228 | 158 | 118 | 83 | -32 | -269 |
| Capital Empl | 623 | 625 | 605 | 703 | 857 | 987 | 994 |

Cash Flow Statement:

| INR-Crores | FY-18 | FY-19 | FY-20 | FY-21(U) | FY-22E | FY-23E | FY24-E |
|------------------|-------|-------|-------|----------|--------|--------|--------|
| CASHFLOWS | 81% | 35% | 109% | 58% | 70% | 75% | 75% |
| OCF | 56 | 31 | 135 | 148 | 220 | 296 | 298 |
| CFI | -10 | -14 | -37 | -87 | -170 | -170 | -50 |
| - Capex | -22 | -30 | -39 | -87 | -170 | -170 | -50 |
| Free cashflow | 46 | 17 | 99 | 61 | 50 | 126 | 248 |
| CFF | -47 | -17 | -80 | -23 | -40 | -92 | -83 |
| - Equity chg | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - Debt chg | 0 | 10 | -53 | n/a | -25 | -80 | -71 |
| - Interest | -26 | -27 | -26 | n/a | -9 | -4 | -4 |
| - Dividend | 0 | 0 | 0 | -3 | -6 | -8 | -8 |
| Cash generated | -1 | 0 | 18 | 38 | 10 | 34 | 166 |

Working capital cycle:

| INR-Crores | FY-18 | FY-19 | FY-20 | FY-21(U) |
|------------------|-------|-------|-------|----------|
| Inventory Days | 25 | 23 | 27 | 30 |
| Receivables Days | 16 | 16 | 12 | 26 |
| Payables Days | 46 | 38 | 34 | 35 |
| Cash cycle days | -4 | 1 | 4 | 21 |

Segmental data:

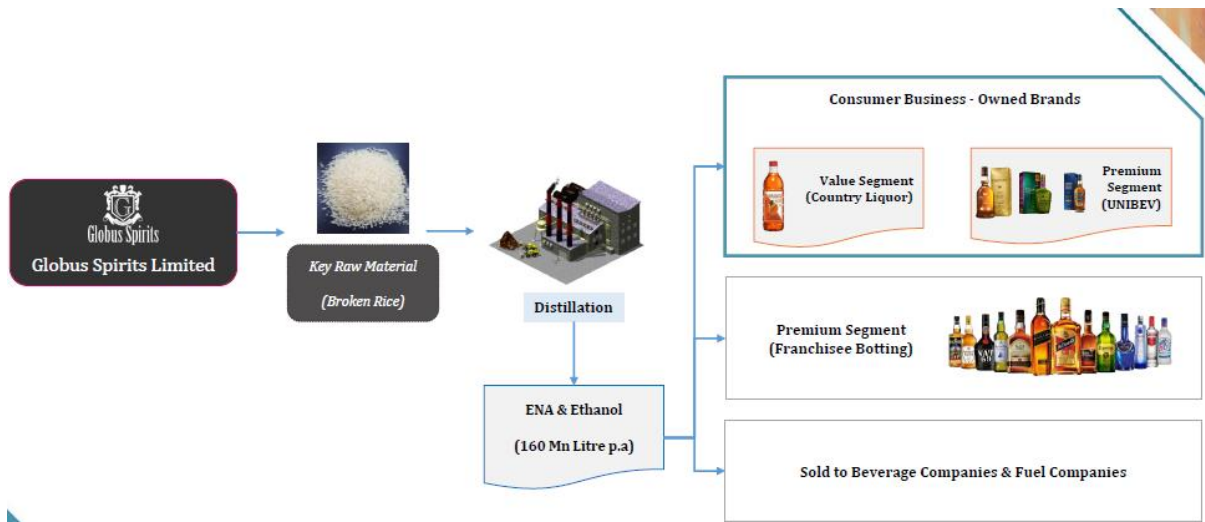
| Particulars (in crs) | FY17 | FY18 | FY19 | FY20 | FY21 |
|--|-------|-------|------|------|------|
| 1. Manufacturing business: | | | | | |
| a) ENA & Ethanol (Bulk alcohol) | | | | | |
| Revenues | 237 | 403 | 427 | 575 | 550 |
| <i>% of total revenues</i> | 31% | 47% | 43% | 49% | 45% |
| Sale volumes (cr ltrs) | 5.4 | 8 | 9.3 | 11 | 10.3 |
| <i>Growth</i> | | 48% | 16% | 18% | -6% |
| Realisation/ltr | 44 | 48 | 46 | 52.5 | 53.2 |
| <i>Growth</i> | | 9% | -4% | 14% | 1% |
| Production (cr ltrs) | 8.8 | 11.4 | 12.7 | 14.5 | 13.8 |
| <i>of which In-house ENA consumption</i> | | 5.1 | 5.3 | 4.8 | 5.5 |
| Capacity in cr ltrs | 10.58 | 12.37 | 15 | 16 | 16.2 |
| Capacity Utilisation | 72% | 93% | 91% | 91% | 86% |

Sales volume has doubled over FY17-20. Capacity Utilisation has been strong over 90% over pre-Covid years.

| Particulars (in crs) | FY17 | FY18 | FY19 | FY20 | FY21 |
|---------------------------------------|------|------|------|------|------|
| 2. Consumer business: | | | | | |
| Value segment (Country liquor) | | | | | |
| Revenues | 372 | 403 | 412 | 415 | 526 |
| <i>% of total revenues</i> | 48% | 47% | 42% | 36% | 43% |
| <i>Growth</i> | | 8% | 2% | 1% | 27% |
| Volume (in cr cases) | 1.18 | 1.28 | 1.19 | 1.1 | 1.23 |
| <i>Growth</i> | | 8% | -7% | -8% | 12% |
| Realisation (Rs/case) | 315 | 382 | 429 | 377 | 427 |
| <i>Growth</i> | | 21% | 12% | -12% | 13% |

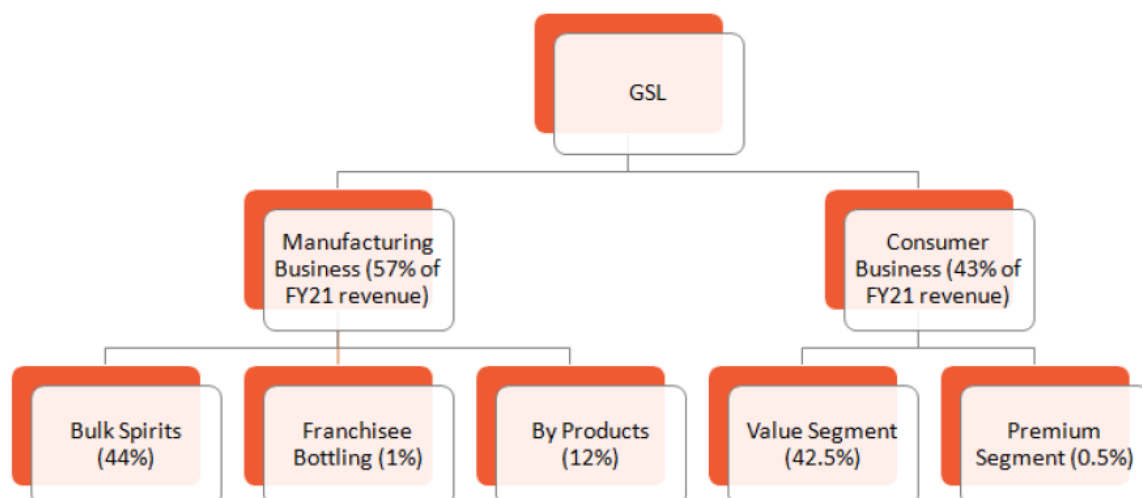
About the Company:

Co' is a 360-degree alcohol beverage player with presence across distillery, IMIL, IMFL and franchisee bottling (pic below). Co' procures waste broken rice from rice millers as a raw material, pricing of which varies from state to state.



It has a two-pronged business model 1) Consumer business (43% of revenues) of marketing & selling IMFL (Indian Manufactured Foreign Liquor) and IMIL (Indian Manufactured Indian Liquor) brands in Rajasthan, Haryana and West Bengal and 2) The bulk manufacturing business (that fetches 57% of revenues) of selling ethanol to oil market companies and franchisee bottling for top brands.

The company's growth strategy is to set up a manufacturing hub in alcohol-deficit states (such as Rajasthan and West Bengal) to optimise utilisation of plant capacity and get high realisation due to higher demand.



Manufacturing Business:

Globus is the largest grain based Extra Neutral Alcohol (ENA) manufacturer in India with a capacity of 16cr ltrs. Reputed IMFL players are major customers for Bulk Alcohol. Co' has a presence in deficit states like Rajasthan and West Bengal and in surplus states like Haryana and Bihar. Co' is also contemplating setting up in Orissa though currently not approved by the board.

Co' also sells Animal Feed Supplements (AFS) which is a by-product from distillation process. AFS is used as a food for the animal feed industry.

Co' is also in franchisee bottling for Diageo/United Spirits in Haryana & West Bengal and Allied Blenders & Distilleries (ABD) in Rajasthan. Co' has almost 20-year relationships with these marquee players.

Consumer Business:

Country Liquor (Indian Manufactured Indian Liquor)

Existing Product Portfolio



In the IMIL business, Co' is currently selling liquor in Rajasthan, Haryana, West Bengal and Delhi. Approx 80% of the Co's sales volume happens in Rajasthan where Co' holds 28% market share (stable market share over past years). While in Haryana, Co' holds 10% market share in IMIL. Haryana has high presence of illegal illicit ENA units and strict government crackdown on these units can drive growth going forward.

UNIBEV: Co' is also present in IMFL through UNIBEV which is currently a small portion of total revenues at 0.5% and in the process of being merged. UNIBEV is present in 10 states in India. It is currently selling semi-premium and premium whisky and premium brandy.

Management:

| Name | Designation | Nature of Employment | Age | Date of Joining | Qualifications & Experience | Previous Employment |
|-------------------|-----------------------------|----------------------|-----|-----------------|---|--|
| Ajay Kumar Swarup | Managing Director | Permanent | 61 | 16-Jan-1993 | PGDBM (35 years of experience) | M/s SVP Industries Ltd. |
| Shekhar Swarup | Joint Managing Director | Permanent | 34 | 27-Oct-2008 | Degree in Business & Management (9 years of experience) | N.A. |
| Bhaskar Roy | Executive Director & COO | Permanent | 58 | 04-Oct-2005 | Mcom, FCA, PHD(31 years of experience) | M/s Saraya Industries Limited |
| Ajay Goyal | Chief Financial Officer | Permanent | 50 | 18-Mar-2015 | CA (22 years of experience) | M/s Toyoda Gosei Minda India Pvt. Ltd. |
| R.K. Malik | President (Operation-North) | Permanent | 63 | 15/Aug/2000 | MBA (42 years of experience) | M/s Golden Bottling |
| Manik Lal Dutta | Executive Director | Permanent | 74 | 01-Aug-2006 | M.Tech, PGDBM (46 years of experience) | M/s United Spirits Limited |
| Jasbeer Singh | Vice President – Exports | Permanent | 62 | 01-Oct-2014 | BSc., MBA(over 17 years of experience) | N.A. |
| Amitabh Singh | Vice President | Permanent | 53 | 16-Apr-2013 | B.Sc. Engineering (29 years of experience) | M/s Radico Khaitan Limited |

Shareholding Pattern:

| | Sep 2018 | Dec 2018 | Mar 2019 | Jun 2019 | Sep 2019 | Dec 2019 | Mar 2020 | Jun 2020 | Sep 2020 | Dec 2020 | Mar 2021 | Jun 2021 |
|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Promoters + | 54.43 | 54.43 | 54.46 | 55.09 | 55.84 | 55.84 | 55.74 | 55.81 | 55.88 | 55.88 | 55.88 | 55.96 |
| Flls + | 0.63 | 0.37 | 0.47 | 0.35 | 0.55 | 0.81 | 0.77 | 0.77 | 1.16 | 1.00 | 0.83 | 1.47 |
| Dlls + | 0.27 | 0.97 | 1.15 | 1.26 | 1.29 | 1.45 | 1.32 | 1.27 | 0.45 | 0.29 | 0.25 | 0.94 |
| Public + | 44.66 | 44.23 | 43.92 | 43.30 | 42.31 | 41.90 | 42.17 | 42.14 | 42.51 | 42.83 | 43.04 | 41.63 |

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