



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

View:	Change
Positive	↔
CMP: Rs. 814	
Upside potential: 22-24%	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 2,344 cr
52-week high/low:	Rs. 814 / 134
NSE volume: (No of shares)	3.9 lakh
BSE code:	533104
NSE code:	GLOBUSSPR
Free float: (No of shares)	1.3 cr

Shareholding (%)

Promoters	56.0
FII	1.5
DII	0.9
Others	41.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.7	161.2	103.1	501.6
Relative to Sensex	13.5	151.0	96.8	458.7

Sharekhan Research, Bloomberg

Summary

- Global Spirits Limited (GSL) posted strong Q1FY2022 performance. Net revenue grew by 61% y-o-y and 4% q-o-q to Rs. 370.5 crore. PAT registered 198% growth to Rs. 55.7 crore. OPM came in at 26.5%, up from 17.1% in Q1FY2021 and 24.7% in Q4FY2022.
- The consumer business' contribution to revenue has increased to 42% versus 35.5% in Q1FY2021, which has 2x higher margins than the bulk alcohol business. With increased sustainable demand for ethanol and scale-up of the consumer business, GSL's earnings would report a 39% CAGR over FY2021-FY2023.
- With higher sales of bulk alcohol (lower working capital business) and increased contribution of the consumer business, the company is likely to be net cash positive by FY2023 (despite a capex of Rs. 225 crore for expansion). Return profile is expected to consistently improve.
- We remain Positive on GSL and expect a potential upside of 22-24% over 12 months. The stock trades at an attractive valuation of 11.5x its FY2022E EPS and 8.7x its FY2023E EPS.

Globus Spirits Limited's (GSL) net revenue grew by 61% y-o-y and 4% q-o-q to Rs. 370.5 crore, aided by higher contribution from the consumer business and higher volume of the bulk alcohol segment. The second wave of COVID-19 had a very minimal impact on the company's business with operations being disrupted for just ~15 days during the quarter. The consumer business reported revenue of Rs. 155.5 crore during the quarter and contributed 42% to revenue as against contribution of 35.5% in Q1FY2021. Consumer business revenue grew by 91% y-o-y due to low base of Q1FY2021. Sales volume for the quarter was 3.38 million cases (growth of 65% y-o-y). The value segment's realization increased by 16% y-o-y and 10% q-o-q to Rs. 462.5 per case in Q1FY2022. Capacity utilisation for the manufacturing business was 98% during the quarter as compared to 58% in the same quarter last year. The bulk alcohol segment reported revenue of Rs. 154.5 crore in Q1FY2022 with sales volume of 29.9 million litres. Average realisation for bulk alcohol came in at Rs. 51.6 per litre during the quarter. Aided by better revenue mix and realisation, gross margin improved to 50.4% and OPM improved to 26.5% from 39.3% and 17.1%, respectively, in Q1FY2021. Operating profit grew by 150% y-o-y to Rs. 98.1 crore. Finance cost declined by 23% y-o-y to Rs. 3.9 crore in Q1FY2022 on account of lower outstanding debt and reduced cost of interest (7.8% in Q1FY2022 versus 8.78% in FY2021). Strong operating performance with lower interest cost resulted in PAT growing by 198% y-o-y and 10% q-o-q to Rs. 55.7 crore. Unibev merger is expected to be completed in Q2FY2022. GSL plans to launch two new brands in Unibev in existing geographies. Capacity expansion of 140 KLPD at West Bengal is expected to be commissioned by September 2021. Capacity expansion of 140 KLPD at Jharkhand has begun and is expected to be commissioned in FY2023. Additional 140 KLPD expansion is under evaluation between Bihar and another location and work for the same is expected to start in H2FY2022. GSL's total capacity will be 920 KLPD (~300 million litres p.a.) on completion of these expansion projects. New capacity additions are expected to manufacture both ethanol and alcohol. Around 75% of expanded capacity will be utilised to manufacture ethanol and around 25% will be utilised to manufacture alcohol for the consumer business. This will help the company to exploit the opportunity in the government's plans to increase ethanol blending to 20% by 2025. The company generated new cash from operations of Rs. 148 crore during the quarter. Return ratios registered improvement with ROE and ROCE at 35% and 42%, respectively, during the quarter, up from 24% and 29%, respectively, in FY2021.

Key positives

- Despite COVID-19 wave two, revenue and PAT grew by 61% and 198% y-o-y, respectively.
- Capacity utilisation was higher at 98%.
- ROE and ROCE improved to 35% (24% in FY2021) and 42% (29% in FY2021).

Key negatives

- Gross margin declined by 70 bps on a sequential basis.

Our Call

View: Maintain Positive view; Expect an upside of 22-24%: With a two-pronged business model, GSL is well placed to achieve strong revenue and PAT CAGR of 22% and 39%, respectively, over FY2021-FY2023. The company will be one of the key beneficiaries of the changing ethanol policy, which will lead to consistent revenue growth and margin expansion over the next 4-5 years. Further, its focus on scaling up the consumer business by adding new products and expansion of the distribution network in existing states augur well in the long term. The company's balance sheet has strengthened with reduction in debt and improvement in operating cash flows (likely to be net cash positive by FY2023). The stock is currently trading at attractive valuations of 11.5x its FY2022E EPS and 8.7x its FY2023E EPS. We have increased our estimates as OPM is expected to be higher (23-24%) due to a better revenue mix. We maintain our positive view on the stock with a potential upside of 22-24% for the next 12 months.

Key Risks

Any delay in operations of new capacities or adverse alcohol policies implemented in the states where GSL operates would act as key risk to our earnings estimates in the coming years.

Valuation (Consolidated)

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	986	1,169	1,231	1,448	1,822
OPM (%)	9.0	10.7	20.7	23.5	24.0
Adjusted PAT	24	50	141	204	270
Adjusted EPS (Rs.)	8.5	17.3	48.9	70.7	93.9
P/E (x)	96.3	47.0	16.6	11.5	8.7
P/B (x)	5.9	5.2	4.0	3.0	2.2
EV/EBIDTA (x)	28.9	19.9	9.5	6.9	5.2
RoNW (%)	6.0	11.1	24.1	26.0	25.8
RoCE (%)	9.0	13.7	26.8	31.6	32.8

Source: Company; Sharekhan estimates

Strong performance led by 61% y-o-y revenue growth and 3x growth in PAT: GSL's net revenue grew by 61% y-o-y to Rs. 370.5 crore, ahead of our expectation of Rs. 282.6 crore. Net revenue grew by ~4% q-o-q. Revenue grew on account of higher share of the consumer segment coupled with higher volume of the bulk alcohol segment. Gross margin improved to 50.4% in Q1FY2022 as compared to 39.3% in Q1FY2021 on account of better revenue mix and better realisation. Strong expansion in gross margin led to a 940 bps increase in OPM to 26.5%, ahead of our expectation of 22.5%. OPM expanded on account of increased share of consumer business coupled with higher demand for ethanol and ENA. OPM improved by 183 bps q-o-q. Operating profit grew by ~150% y-o-y to Rs. 98.1 crore. Finance cost declined by 23% y-o-y to Rs. 3.9 crore in Q1FY2022 due to lower outstanding debt and reduced cost of interest. Strong operating performance with lower interest cost resulted in PAT growing 3x y-o-y to Rs. 55.7 crore, ahead of our expectation of Rs. 34.9 crore. On a sequential basis, PAT increased by 10%.

Increased contribution from consumer business leading to higher margins: GSL's consumer business' (largely IMIL sales) contribution improved by ~650 bps to 42% in Q1FY2022 from 35.5% in Q1FY2021, supported by strong value and volume growth. The business reported revenue of Rs. 155.5 crore during the quarter (growth of 91% y-o-y) and sales volume of 3.38 million cases. The aggregate value segment realisation increased by 16% y-o-y and 10% q-o-q to Rs. 462.5 per case in Q1FY2022. The value segment's sales volumes grew by 65% y-o-y to 3.3 million cases. During the quarter, the company managed to increase its market share in the key state of Rajasthan. Management expects contribution from the consumer business to further go up, which will help in improving the company's profitability.

Manufacturing business recovered post lockdown: The manufacturing business (58% contribution to revenue) registered strong recovery post lockdown with capacity utilisation coming in at 98% in Q1FY2022 despite the second wave of COVID-19. Capacity utilisation was 58% in Q1FY2021 and 99% in Q4FY2021. The bulk alcohol segment (major contribution to the manufacturing business) reported revenue of Rs. 154.5 crore, up from Rs. 80.7 crore in Q1FY2021. Bulk alcohol sales volumes stood at 29.9 million litre in Q1FY2022, up 45% y-o-y and 5% q-o-q. Average realisation for bulk alcohol came in at Rs. 51.6 per litre during the quarter. The company plans to expand its manufacturing business in deficit states (such as Rajasthan and West Bengal) to optimise utilisation of plant capacity and get high realisation due to higher demand.

Capacity expansion on track: The company plans to improve its manufacturing capabilities to aid growth in business. Accordingly, various capacity expansion projects are currently under progress. Expansion work of additional 140 KLPD in West Bengal is nearing completion and is likely to be commissioned by September 2021. Work has commenced recently for expansion at Jharkhand by 140 KLPD and the project is expected to be commissioned in FY2023. Additional 140 KLPD expansion is under evaluation between Bihar and another location; and work for the same is expected to start in H2FY2022. Once the above capacities are operational, GSL's total capacity will be 920 KLPD (~300 million litres p.a.). New capacity addition will be fungible capacities, which can manufacture both ethanol and alcohol. Around 75% of expanded capacity will be utilised to manufacture ethanol and around 25% will be utilised to manufacture alcohol for the consumer business. This will help the company to exploit the opportunity in the government's plans to increase ethanol blending to 20% by 2025.

Key Concall highlights

- ◆ The impact of second wave of COVID-19 was minimal with operations being impacted for ~15 days or less during the quarter. The company witnessed good recovery by quarter end with improvement in month-on-month sales since mid-June.
- ◆ Stakeholders of both the companies have approved the Unibev merger and the same is expected to be completed in Q2FY2022. The company plans to launch two new brands during the year with focus on select geographies and does not plan to expand to new geographies currently.
- ◆ The company generated net cash flow from operations of Rs. 148 crore during the quarter and saw an improvement in working capital. Finance cost reduced by 23% y-o-y and cost of debt came down to 7.8% from 8.78% in FY2021.
- ◆ Return ratios registered improvement with ROE and ROCE at 35% and 42%, respectively, during the quarter, up from 24% and 29%, respectively, in FY2021.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
Gross sales	550.6	292.0	88.6	490.9	12.2
Excise duty	180.1	61.9	191.0	134.2	34.2
Net sales	370.5	230.1	61.0	356.7	3.9
Material cost	183.9	139.7	31.6	174.5	5.4
Employee cost	14.5	9.1	59.6	9.1	60.2
Other expenses	74.0	42.0	76.2	85.2	-13.2
Total operating expenses	272.4	190.8	42.8	268.8	1.4
Operating profit	98.1	39.3	149.7	87.9	11.6
Other income	1.1	0.9	24.5	1.3	-17.3
Interest expense	3.9	5.1	-22.9	4.1	-4.0
Depreciation	10.3	9.6	8.2	11.1	-6.8
Profit before tax	85.0	25.5	232.9	74.1	14.7
Tax	29.3	4.7	521.2	13.4	117.9
Reported PAT	55.7	18.7	197.9	50.6	10.0
EPS (Rs.)	1.9	0.6	198.4	1.8	10.0
			bps		bps
GPM (%)	50.4	39.3	-	51.1	-72
OPM (%)	26.5	17.1	-	24.7	183
NPM (%)	15.0	8.1	-	14.2	84
Tax rate (%)	34.4	18.5		18.1	

Source: Company; Sharekhan Research

Segmental performance

Particulars	Rs cr				
	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
Value Segment (Consumer business)	154.5	80.7	91.4	156.5	-1.3
Premium Segment (Consumer business)	1.0	0.9	3.8	1.6	-41.0
Bulk Alcohol Segment (Manufacturing business)	154.5	80.7	91.4	153.7	0.5
Others (including bottling & by-products)	60.6	67.8	-10.6	44.9	35.0
Net revenue from operations	370.5	230.1	61.0	356.7	3.9

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Structural change in the alcohol industry

Indian Made Indian Liquor (IMIL) is evolving from a restricted quota-based, commoditised market to a consumer-driven brand-based industry. The main attractiveness of this market lies in its sizeable base, comprising SEC-D and below which could translate into ~40% of the total population (excluding Below Poverty Line). Growth in this segment is expected to be driven by a growing consumer base, rising rural incomes, and consumption, conversion from illicit/toddy to IMIL with increasing awareness about health and quality, conducive regulatory policies, and growth in population. In the short run, the IMIL industry could benefit from lower discretionary incomes, which would push up demand for lower-priced liquor. The Government is targeting to achieve 20% blending of ethanol by 2025 which would result in higher demand for grain-based molasses in the coming years.

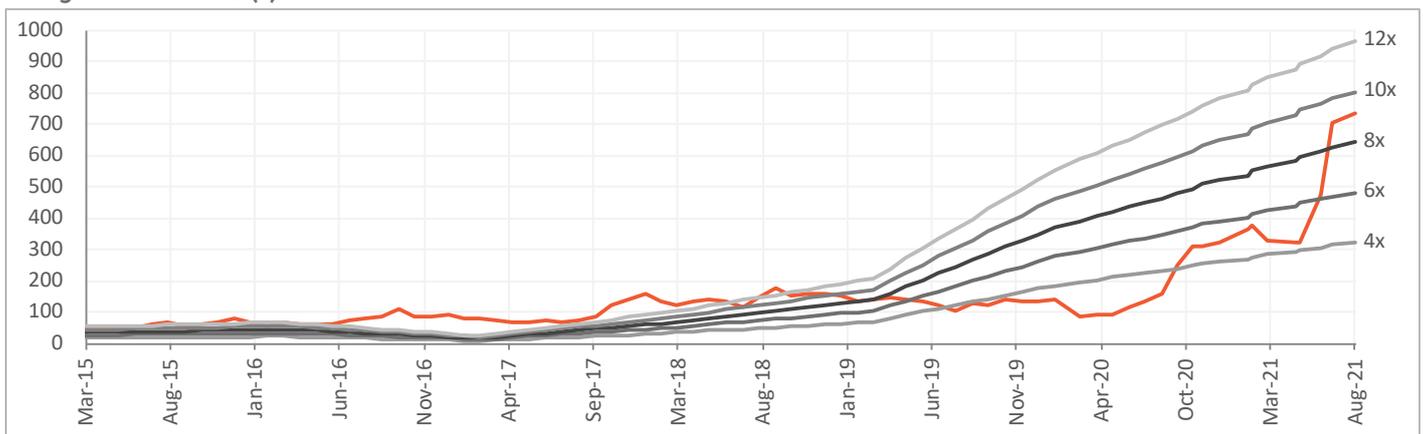
■ Company outlook – Focus on sustainable earnings growth

Its business model helped GSL's revenue and operating profit to report a CAGR of 13% and 55%, respectively, over FY2018-FY2021. It will be one of the key beneficiaries of change in the government's ethanol policy with 50% of ethanol blending expected to happen through grain base. Around 75% of expanded capacity (of 420 KLPD) will be utilised for manufacturing ethanol. Thus, we expect GSL's bulk alcohol sales volume and revenue to post a CAGR of 21% and 24%, respectively, over FY2021-FY2023. Contribution of the consumer business is expected to improve (from current 43%) on account of improving demand for IMIL in key states, sustained new product additions, and expansion in newer states. The company's profitability is expected to improve in the coming years led by higher margin trajectory from increased contribution of consumer business, better earnings visibility, improvement in cash flows, and increased in capacity post completion of expansion projects.

■ Valuation – Maintain Positive view; Expect an upside of 22-24%

With a two-pronged business model, GSL is well placed to achieve strong revenue and PAT CAGR of 22% and 39%, respectively, over FY2021-FY2023. The company will be one of the key beneficiaries of the changing ethanol policy, which will lead to consistent revenue growth and margin expansion over the next 4-5 years. Further, its focus on scaling up the consumer business by adding new products and expansion of the distribution network in existing states augur well in the long term. The company's balance sheet has strengthened with reduction in debt and improvement in operating cash flows (likely to be net cash positive by FY2023). The stock is currently trading at attractive valuations of 11.5x its FY2022E EPS and 8.7x its FY2023E EPS. We have increased our estimates as OPM is expected to be higher (23-24%) due to a better revenue mix. We maintain our positive view on the stock with a potential upside of 22-24% for the next 12 months.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
United Spirits	99.6	57.5	43.7	48.8	35.5	28.3	16.8	22.1	23.9
Radico Khaitan	41.9	35.4	29.3	28.0	23.2	19.6	18.2	18.7	20.7
Globus Spirits	16.6	11.5	8.7	9.5	6.9	5.2	26.8	31.6	32.8

Source: Company, Sharekhan estimates

About company

Established in 1992, GSL is one of the leading players in the Indian Alcoholic Beverages Industry. The company is engaged in manufacturing, marketing, and sale of IMIL, Indian Made Foreign Liquor (IMFL), Bulk Alcohol, and contract bottling for established IMFL brands. GSL's manufacturing business segment contributes ~57% of revenue and comprises bulk spirits, franchisee bottling and by products, whereas the consumer business segment contributes ~43% to revenue and comprises the value segment and premium segment. GSL is one of the largest and most efficient grain-based distilleries in India with a capacity of 160 million litres.

Investment theme

GSL will be one of the key beneficiaries of change in the government's ethanol policy with 50% of ethanol blending expected to happen through grain based. Around 75% of expanded capacity (of 420 KLPD) will be utilised for manufacturing of ethanol. Consumer business (IMIL) contribution has increased to 43% vs. 35%, which has 2x higher margins than the bulk alcohol business. With increased sustainable demand for ethanol and scale-up in consumer business, GSL's earnings to grow at CAGR of 22% over FY2021-23. With higher sales of bulk alcohol (lower working capital business) and increased contribution of consumer business, the company is expected to be net cash positive by FY2023 (despite capex of Rs. 225 crore for expansion). Return profile is expected to consistently improve.

Key Risks

- ◆ Changes in regulation/policy by state or central government on alcohol distribution/selling policy would act as a key risk to GSL's consumer business.
- ◆ Any delay in the operations of new capacities would act as a key risk to GSL's earnings in the near term.

Additional Data

Key management personnel

Mr. Ajay Kumar Swarup	Managing Director
Mr. Shekhar Swarup	Executive Director
Dr. Bhaskar Roy	Executive Director and COO
Mr. Ashish Lakhota	CFO
Mr. Santosh Kumar Patnaik	Company Secretary

Source: Company Website

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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