



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	■	↔	■

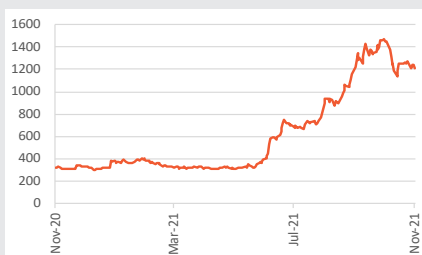
Company details

Market cap:	Rs. 3,491 cr
52-week high/low:	Rs. 1,509 / 275
NSE volume: (No of shares)	3.9 lakh
BSE code:	533104
NSE code:	GLOBUSSPR
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	50.9
FII	5.4
DII	1.4
Others	42.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.5	35.1	289.9	278.4
Relative to Nifty	-18.2	24.4	265.3	239.3

Sharekhan Research, Bloomberg

Consumer goods

Sharekhan code: GLOBUSSPR

Reco/View: Positive

CMP: Rs. 1,212

Upside potential: 35%

↑ Upgrade
 ↔ Maintain
 ↓ Downgrade

Summary

- Global Spirits Limited's (GSL) posted strong performance in Q2FY2022 with net revenue grew by 17% y-o-y and 3.2% q-o-q to Rs. 382.2 crore and PAT registered growth of 52% to Rs. 52.5 crore. OPM came in at 23%.
- The consumer business' (IMIL) contribution to revenue has increased to 47% versus 41% in Q2FY2021. Revenue of the consumer division grew by 31% (volume/realisation mix of 13%/15%).
- With higher sales of bulk alcohol and increased contribution of the consumer business, the company is likely to be net cash positive by FY2023. Return profile is expected to consistently improve.
- The stock has corrected by 20% from its recent high and is trading at attractive valuation of 11.6x/9.3x its FY023E/FY024E EPS. In view of strong growth prospects, we remain Positive with an upside of 35% from current levels.

Globus Spirits Limited's (GSL) posted yet another quarter of strong performance, driven by strong performance of its consumer business. Net revenue grew by 17% y-o-y and 3% q-o-q to Rs. 370.5 crore in Q2FY022, aided by higher contribution from the consumer business to 47%. Revenue of the consumer business grew by 31% y-o-y to Rs. 180 crore, driven by 13% volume growth and 15% realisation-led growth. Sales volume stood at 3.8 million cases (value plus segment contributed 1.3 million cases). Gross margin improved by 243 bps y-o-y to 48.4% and operating profit margin (OPM) expanded by 465 bps y-o-y to 23%. PAT growth stood at 52% y-o-y to Rs. 52.5 crore. Capacity expansion in key states on West Bengal, Jharkhand, and Bihar is as per plans and will add volumes in terms of ethanol (75% contribution) and alcohol (25% contribution) in the coming years.

Key positives

- Consumer business contribution increased to 47% from 42% in Q2FY2021 (margins are 2x the bulk alcohol business).
- Value plus (premium segment) contribution improved to 1.3 million cases (grew by 63% y-o-y).
- GSL's market share in key state of Rajasthan improved to 32.3% (value plus segment market share stood at 45% from 39% a year back).

Key negatives

- Bulk alcohol business sales volume decreased by 5% to 26.8 million litres due to shut down of factory in Bihar (caused by floods) and maintenance shut down in Haryana and West Bengal.
- OPM fell by 352 bps q-o-q due to higher repair and maintenance cost, resulting in higher other expenses. The company lost around Rs. 25 crore profit because of factory shut down.

Management Commentary

- Gaining of share in key markets such as Rajasthan and Haryana, improving penetration in markets such as West Bengal, expanding base in new markets such as Delhi and Uttar Pradesh coupled with new product launches would help the consumer business to grow in double digits.
- Capacity expansion in West Bengal and Jharkhand would further add on to the revenue of the manufacturing business (including bulk alcohol). However, with 75% of capacity expected to utilise ethanol, margins of the manufacturing business are expected to increase.
- Despite raw-material inflation, management is targeting to achieve OPM of 24-25% in Q4FY2021 led by better mix and higher capacity utilisation.

Revision in estimates – We have increased our earnings estimates for FY2022/FY2023/FY2024 to factor in higher than earlier expected sales volume in the consumer business and lower tax rate of 25% for FY2023/ FY2024 as guided by the management.

Our Call

View - Retain Positive stance with an upside of 35%: With a two-pronged business model, GSL is well placed to achieve strong revenue and PAT CAGR of 22% and 39%, respectively, over FY2021-FY2024. The company will be one of the key beneficiaries of the changing ethanol policy, which will lead to consistent growth in revenue and margin expansion over the next 4-5 years. Sustainable 20% growth in scale up consumer business, higher ethanol production, and accelerated cash flows with strong return profile make in a good bet in the liquor space. The stock has corrected by 20% from its recent high and is trading at attractive valuation of 11.6x/9.3x its FY2023E/FY2024E EPS. We maintain our Positive view on the stock with a potential upside of 35% over the next 12 months.

Key Risks

Any delay in operations of new capacities or adverse alcohol policies implemented in the state of presence would act as a key risk to our earnings estimates in the coming years.

Valuation(Consolidated)

Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,231	1,473	1,857	2,268
OPM (%)	20.7	23.8	24.3	24.6
Adjusted PAT	141	211	300	376
Adjusted EPS (Rs.)	48.9	73.2	104.2	130.4
P/E (x)	24.8	16.6	11.6	9.3
P/B (x)	6.0	4.4	3.2	2.4
EV/EBIDTA (x)	14.0	9.9	7.6	5.9
RoNW (%)	24.1	26.7	27.7	25.8
RoCE (%)	26.8	32.4	33.0	32.0

Source: Company; Sharekhan estimates

Strong operating performance: GSL's net revenue grew by 17% y-o-y and 3% q-o-q to Rs. 370.5 crore, aided by higher contribution from the consumer business to 47%. Revenue of the consumer business grew by 31% y-o-y to Rs. 180 crore, driven by 13% volume growth and 15% realisation-led growth. Sales volume stood at 3.8 million cases (value plus segment contributed 1.3 million cases). Capacity utilisation came at 90% in Q2FY2022 as against 99% in Q1FY2022. This was mainly on account of unplanned shutdown in Bihar facility due to floods (contribution loss of Rs. 20 crore) and maintenance shutdown in Haryana/West Bengal (contribution loss of Rs. 5 crore). Gross margin improved by 243 bps y-o-y to 48.4% and OPM expanded by 465 bps y-o-y to 23%. Operating profit grew by 46.3% y-o-y to Rs. 87.8 crore. OPM fell by 352 bps q-o-q due to higher repair and maintenance cost and fuel inflation of 20-25% resulting in higher other expenses. This along with lower interest cost (down by 51% y-o-y) resulted in 52% y-o-y growth in PAT to Rs. 52.5 crore.

Increased contribution from the consumer business to 47%: GSL's consumer business' (largely IMIL sales) contribution improved by 487 bps y-o-y and 530 bps q-o-q to 47% in Q2FY2022, supported by strong value and volume growth. The business reported revenue of Rs. 180 crore during the quarter (growth of 31% y-o-y) and sales volume of 3.8 million cases (value plus sales volume stood at 1.3 million cases, 63% y-o-y growth). Sales volume grew by 13% y-o-y and 12% q-o-q. Average realisation of value and value plus segment increased by 15% y-o-y and 4% q-o-q to Rs. 473 per case in Q2FY2022. 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 to improve the company's profitability.

Consumer business performance in key markets: Key markets such as Rajasthan, Haryana, Delhi, and West Bengal registered growth of 15%+, 7%, 80% (on small base), and 2%. Rajasthan market's share increased to 32.3%. Market share in the value plus segment improved to 45% from 39% earlier. The company has planned new launches – Black Lace Rum and Whisky brand in Q3FY2022. The company is expanding Whisky and Vodka offerings via Tetra packs. Haryana market share maintained at 9%. The company is planning to launch two new brands. In West Bengal, the company is re-introducing Goldee brand in the market and new launches are expected in Q3FY2022. Current portfolio of Unibev brands is present in key states of Telangana, West Bengal, and Pondicherry. The company is planning to tap markets such as Haryana, Delhi, and Uttar Pradesh for its premium portfolio. The company is also planning to launch two new brands Seventh Heaven and Quba.

Plant shutdown affected performance of the manufacturing business: Revenue of bulk alcohol business decreased by ~8% y-o-y to Rs. 137.9 crore on account of 5% decrease in sales volume. Temporary blip was mainly on account of maintenance shutdown in plants at Haryana/West Bengal and shutdown in Bihar plant caused by floods. Capacity utilisation during the quarter stood at 91% versus 99% in Q1FY2022. Currently, water levels are receding and plant repair work is likely to be completed by December 2021. Bihar plant will operate at full capacity from Q4FY2022, while Haryana plant will be operational from Q3FY2022.

Capacity expansion on track: The company plans to improve its manufacturing capabilities to aid business growth. 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 November 2021. The plant is likely to operate at ~25% capacity utilisation in Q3FY2022 and full capacity by Q4. Work has commenced recently for expansion at Jharkhand by 140 KLPD and the project is expected to be commissioned in FY2023. The plant is expected to become operational from Q1FY2023. 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 conference call highlights

- ◆ GSL has strong market holding in Rajasthan with value segment gaining strong traction. With a significant increase in the price of Indian manufactured foreign liquor (IMFL), consumers are shifting to premium end of IMIL. Further, improvement in rural economy and increased daily wage workers under various government scheme are helping lot of consumer shifting from low-grade country liquor to the branded IMIL space. This is helping companies such as GSL to gain share and achieve higher sales volume in Rajasthan.
- ◆ West Bengal liquor market's is around 30-35 lakh cases per month (value segment is 12 lakh cases per month). GSL has 2% market share in West Bengal. It is largely present in Kolkata (1/3rd of the overall market) and will be expanding in the other regions of West Bengal in the coming years.
- ◆ The company is aiming to expand geographically by entering new states and by introducing new products. As stated by management, various number of products are under development in each of the categories (lower/medium/premium) and are expected to be launched in the coming months. It is planning to expand its base in states such as Jharkhand, which is less than 50% of West Bengal's market size. It has recently entered into the Delhi market and expects good traction in the region.
- ◆ The consumer business is expected to grow by 20%, led by the value segment, which will continue to have higher contribution. In the premium segment, volumes are low but higher realisation compensates lower volume and higher realisation will be the key driver of the premium segment.

Results (Consolidated)

	Rs cr				
Particulars	Q2FY22	Q2FY21	y-o-y (%)	Q1FY22	q-o-q (%)
Gross sales	594.0	456.7	30.0	550.6	7.9
Excise duty	211.8	129.1	64.0	180.1	17.6
Net sales	382.2	327.6	16.7	370.5	3.2
Material cost	197.2	177.0	11.4	183.9	7.2
Employee cost	10.7	10.9	-1.6	14.5	-26.0
Other expenses	86.5	79.7	8.5	74.0	16.9
Total operating expenses	294.4	267.6	10.0	272.4	8.1
Operating profit	87.8	60.0	46.3	98.1	-10.5
Other income	1.6	3.4	-54.2	1.1	44.7
Interest expense	2.4	4.9	-51.3	3.9	-39.2
Depreciation	10.4	10.0	4.8	10.3	0.9
Profit before tax	76.5	48.6	57.6	84.9	-9.9
Tax	24.0	14.0	71.6	29.3	-17.9
Reported PAT	52.5	34.6	51.9	55.7	-5.7
EPS (Rs.)	1.8	1.2	51.9	1.9	-5.7
			BPS		BPS
GPM (%)	48.4	46.0	243	50.4	-196
OPM (%)	23.0	18.3	465	26.5	-352
NPM (%)	13.7	10.6	319	15.0	-129
Tax rate (%)	31.4	28.8		34.4	

Source: Company; Sharekhan Research

Segmental performance

	Rs cr				
Particular	Q2FY22	Q2FY21	y-o-y (%)	Q1FY22	q-o-q (%)
Value Segment (Consumer business)	179.5	137.4	30.6	154.5	16.2
Premium Segment (Consumer business)	1.1	1.5	-24.1	1.0	14.6
Bulk Alcohol Segment (Manufacturing business)	137.9	149.6	-7.8	154.5	-10.7
Others (including bottling & by-products)	63.7	39.2	62.5	60.6	5.2
Net revenue from operations	382.2	327.6	16.7	370.5	3.2

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Structural change in the alcohol industry

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 it 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.

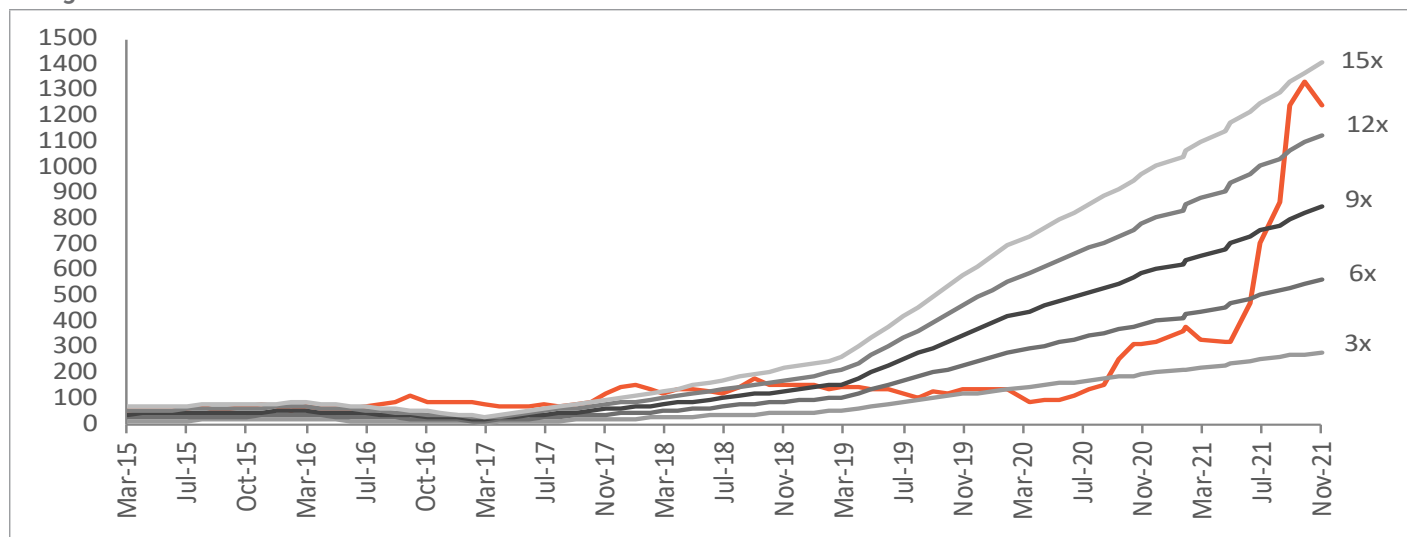
■ Company outlook – Focus on sustainable earnings growth

Its business model helped GSL's revenue and operating profit to post 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 based. Around 75% of expanded capacity (of 420klpd) will be utilised for manufacturing ethanol. Thus, we expect GSL's bulk alcohol sales volume and revenue to report a CAGR of 21% and 24%, respectively, over FY2021-FY2024. Contribution of the consumer business is expected to improve (from current 47%) on account of improving demand for IMIL in key states, sustained new product additions, and expansion in newer states. Management expects OPM to stand at 24-25% in FY2024.

■ Valuation - Retain Positive stance with potential upside of 35%

With a two-pronged business model, GSL is well placed to achieve strong revenue and PAT CAGR of 22% and 39%, respectively, over FY2021-FY2024. The company will be one of the key beneficiaries of the changing ethanol policy, which will lead to consistent growth in revenue and margin expansion over the next 4-5 years. Sustainable 20% growth in scale up consumer business, higher ethanol production, and accelerated cash flows with strong return profile make in a good bet in the liquor space. The stock has corrected by 20% from its recent high and is trading at attractive valuation of 11.6x/9.3x its FY2023E/FY2024E EPS. We maintain our Positive view on the stock with a potential upside of 35% over the next 12 months.

One-year forward PE band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
United Spirits	-	86.3	65.6	66.8	49.0	39.2	16.8	22.1	24.8
Radico Khaitan	51.4	49.9	36.8	35.0	31.6	24.2	17.4	17.2	20.7
Globus Spirits	24.8	16.6	11.6	14.0	9.9	7.6	26.8	32.4	33.0

Source: Company, Sharekhan estimates

About company

Established in 1992, GSL is one of the leading players in the Indian alcoholic beverages industry. The company manufactures, markets, and sell Indian Made Indian Liquor (IMIL), Indian Made Foreign Liquor (IMFL), bulk alcohol, and contract bottling for established IMFL brands. GSL's manufacturing business segment contributes ~57% to 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 160mn 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 ethanol. Consumer business's (IMIL) contribution has increased to 43% versus 35%, which has 2x higher margins than the bulk alcohol business. With increased sustainable demand for ethanol and scale-up in the consumer business, GSL's earnings are expected to report a CAGR of 22% over FY2021-FY2023. With higher sales of bulk alcohol (lower working capital business) and increased contribution of the 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 operation of new capacities would act as a key risk to the earnings of GSL 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 Lakhotia	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 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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