Globus Spirits

To grow in high spirits

Consumer goods	Sharekhan code: GLOBUSSPR	New Idea

Summary

- We initiate viewpoint on Globus Spirits Ltd (GSL) and expect a potential upside of 25-27% over 12 months. The stock trades at an attractive valuation of 10.2x its FY2022E EPS and 7.2x its FY2023E EPS.
- GSL will be among the key beneficiaries of a change in the government's ethanol policy with 50% of ethanol blending expected to be grain based. Around 75% of GSL's expanded capacity (of 420 klpd) will be utilised to manufacture ethanol.
- The consumer business' (IMIL) contribution to revenue has increased to 43% vs.35%, which has 2x higher margins than the bulk alcohol business. With increased sustainable demand for ethanol and a scale-up of the consumer business, GSL's earnings would clock a 30% CAGR over FY2021-23.
- With higher sales of bulk alcohol 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.

3R MATRIX

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

\+ Positive = Neutral - Negative

Reco/View

View: **Positive**
CMP: **Rs. 595**
Upside potential: **25-27%**

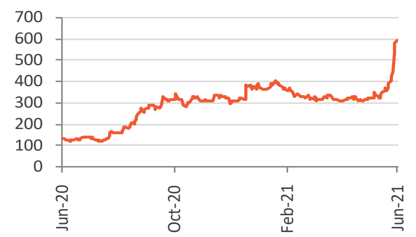
Company details

Market cap:	Rs. 1,714 cr
52-week high/low:	Rs. 635/ 118
NSE volume: (No of shares)	4.0 lakh
BSE code:	533104
NSE code:	GLOBUSSPR
Free float: (No of shares)	1.3 cr

Shareholding (%)

Promoters	55.9
FII	19.6
DII	0.3
Others	24.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	84.1	88.4	101.3	343.9
Relative to Sensex	80.0	82.8	85.8	293.3

Sharekhan Research, Bloomberg

Globus Spirits Ltd (GSL) is an integrated grain-based alcohol manufacturing company in India. 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. The company currently has total alcohol production capacity of 500 klpd (160 million litres per annum). The company is planning to add another 420 klpd over the next three years, which will take its total capacity to 920 klpd (~300 million litres p.a). The expansion will happen in existing capacities at West Bengal, Rajasthan and Bihar along with entry into one more state of Jharkhand with a green field project. 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 consumer business. This will help the company to exploit the opportunity in the government's plans to increase the ethanol blending to 20% by 2025. According to the government's roadmap, around 50% of ethanol blending will be through grain-based molasses (i.e 740 crore litres out of the planned blending of 1,500 crore litres). This would result in a consistent increase in sales volume and sales realisation of bulk alcohol segment over next 4-5 years. Thus, we expect GSL's bulk alcohol sales volume and revenues to grow at CAGR of 20% and 24%, respectively over FY2020-23. Higher capacity utilisation will lead to better efficiencies and would help the manufacturing (bulk alcohol) business' margins to expand in the coming years. The scale-up the consumer business is the key focus area of the company to consistently improve margins in the coming years. Despite an uncertain year, GSL's consumer business revenues grew by 25% in FY2021 with volumes and realisation growing by 12% and 13% respectively. This is mainly on account of higher demand for IMIL products due to downtrading from IMFL and a sustained shift towards branded IMIL products. The company's OPM expanded to 20.7% in FY2021 from 10.7% in FY2020 (as consumer business has 2x higher margins than the bulk sales). Stable working capital, lower cash outlay for tax due to availability of MAT credit and a reduction in interest cost helped net cash from operations improve to Rs. 148.4 crore in FY2021 from Rs. 30.6 crore in FY2019. The company strengthened its balance sheet by reducing debt of Rs. 75 crore to 176 crore in FY2021. Its return profile improved significantly with RoE and RoCE standing at 24% and 27%, respectively in FY2021.

Our Call

View: Initiate viewpoint with Positive view; expect an upside of 25-27% - With a two-pronged business model GSL is well place to achieve strong revenue and PAT CAGR growth of 20% and 30% over FY2020-23. The company will be one of the key beneficiaries of the changing ethanol policy which will lead to consistent growth in revenues and expansion in margins 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 augurs well in the long term. The company's balance sheet has strengthened with reduction in debt and improvement in the operating cash flows (likely to be net cash positive by FY2023). The stock is currently trading at attractive valuations of 10.2x its FY2022E EPS and 7.2x its FY2023E EPS. We initiate viewpoint on the stock with potential upside of 25-27% for the next twelve 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

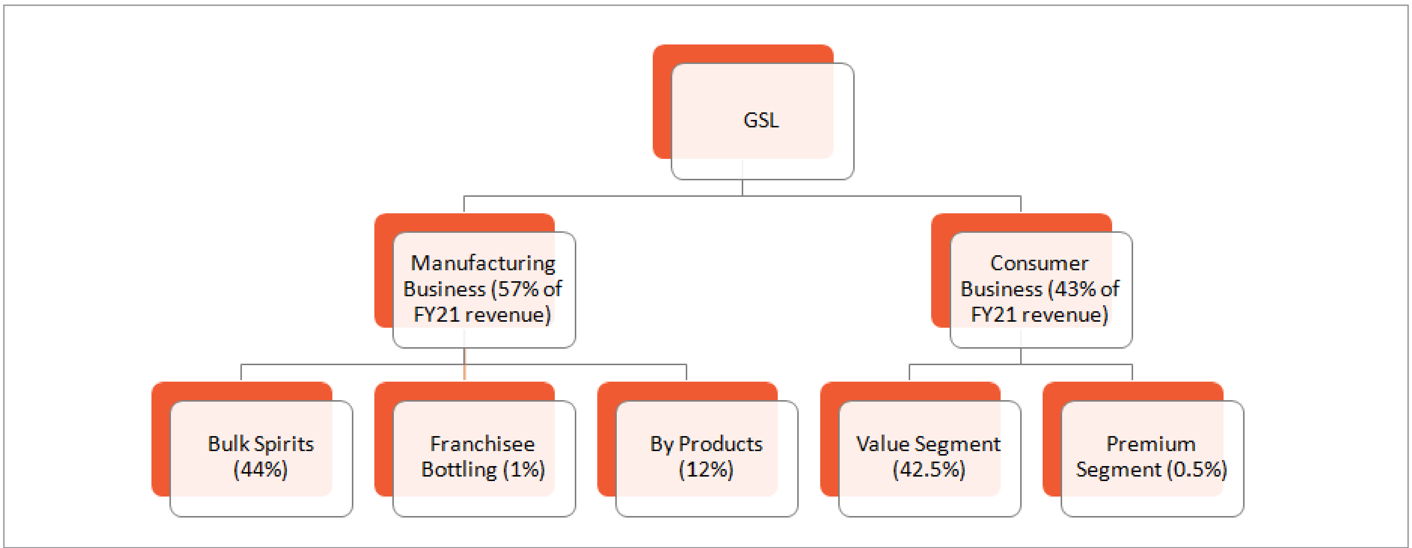
Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	986	1,169	1,231	1,366	1,783
OPM (%)	9.0	10.7	20.7	21.1	21.7
Adjusted PAT	24	50	141	168	238
Adjusted EPS (Rs.)	8.5	17.3	48.9	58.5	82.6
P/E (x)	70.4	34.3	12.2	10.2	7.2
P/B (x)	4.3	3.8	2.9	2.3	1.7
EV/EBIDTA (x)	21.7	14.9	7.0	5.9	4.0
RoNW (%)	6.0	11.1	24.1	22.5	24.3
RoCE (%)	9.0	13.7	26.8	27.4	27.9

Source: Company; Sharekhan estimates

Two-pronged business model kept business fundamentals consistent

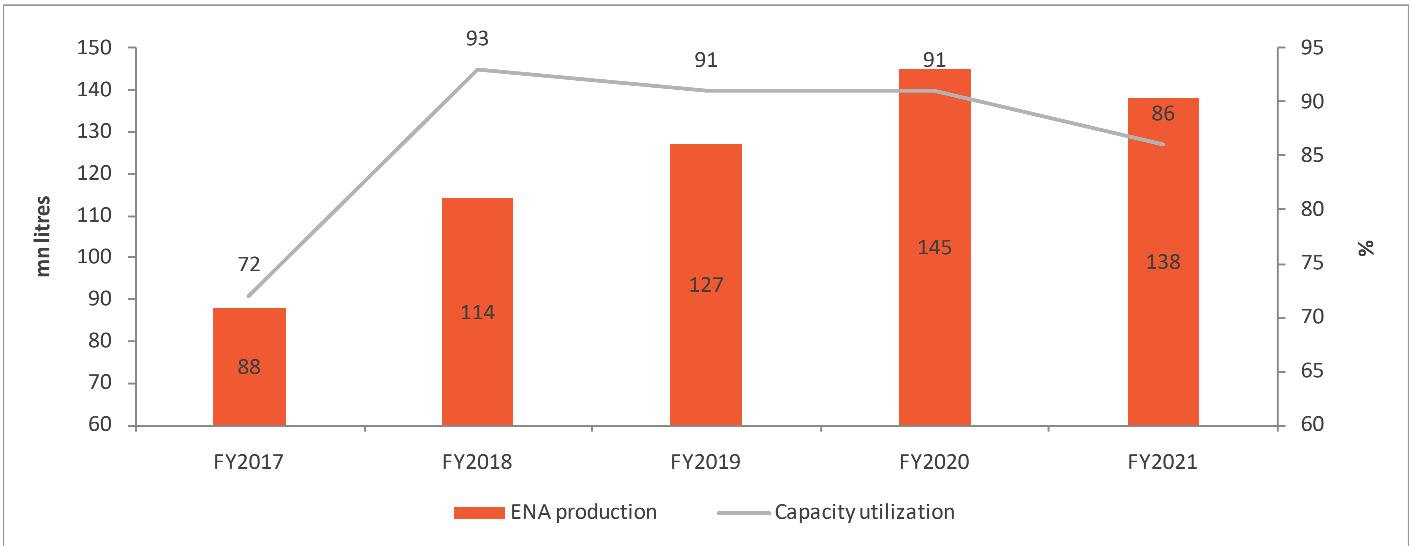
GSL is one of the largest grain-based distilleries in India with a capacity of 500 klpd (160 million p.a.) spread across Rajasthan, Haryana, West Bengal and Bihar. The company has a two-pronged business model in which 160 klpd of capacity is utilised for manufacturing of bulk alcohol (including ethanol for OMCs and third party bottling alliances) and 340 klpd utilised for manufacturing of value-added liquor products in the Indian-made Indian liquor (IMIL) space. Most facilities are fungible which de-risks the business model and keeps revenue and profitability consistent over the long term. The company's utilization remained in the upwards of 90% in past few years (in FY2021 except for Q1, capacity utilisation remained above 90% for rest of the year). The company focuses on expanding its base in states with an alcohol deficit (such as Rajasthan and West Bengal) to achieve higher sales due to increase in demand and better realisations. The company generates revenues from the entire value chain of the business. Around 12-13% of revenue comes from by-products which are sold as animal feed supplements and Co2 that is commonly used as a raw material in the chemical industry.Under the strong business model, the company maintained significant positioning in the consumer business segment with IMIL sales volume of ~12.5 million cases, steady performance of the IMFL franchisee business with sales volumes of 4.0-4.5 million cases (FY2021 stood at 2.8mn due to covid-19 led uncertainties) and achieved consistent performance in the bulk alcohol business with volume CAGR growth of ~12%. Two pronged business model aided the company's revenues and operating profit to grow at CAGR of 13% and 55% over FY2018-21. Return ratios improved substantially with RoE and RoCE standing at 24% and 27% respectively in FY2021.

360° Alcobev Player with presence across distillery, IMIL, IMFL, and franchise bottling



Source: Company, Sharekhan Research

ENA production has gone up over the years and capacity utilization at 90%+



Source: Company, Sharekhan Research

Distillery capacity expansion of 420 klpd by FY2023 focusing on governments ethanol policy

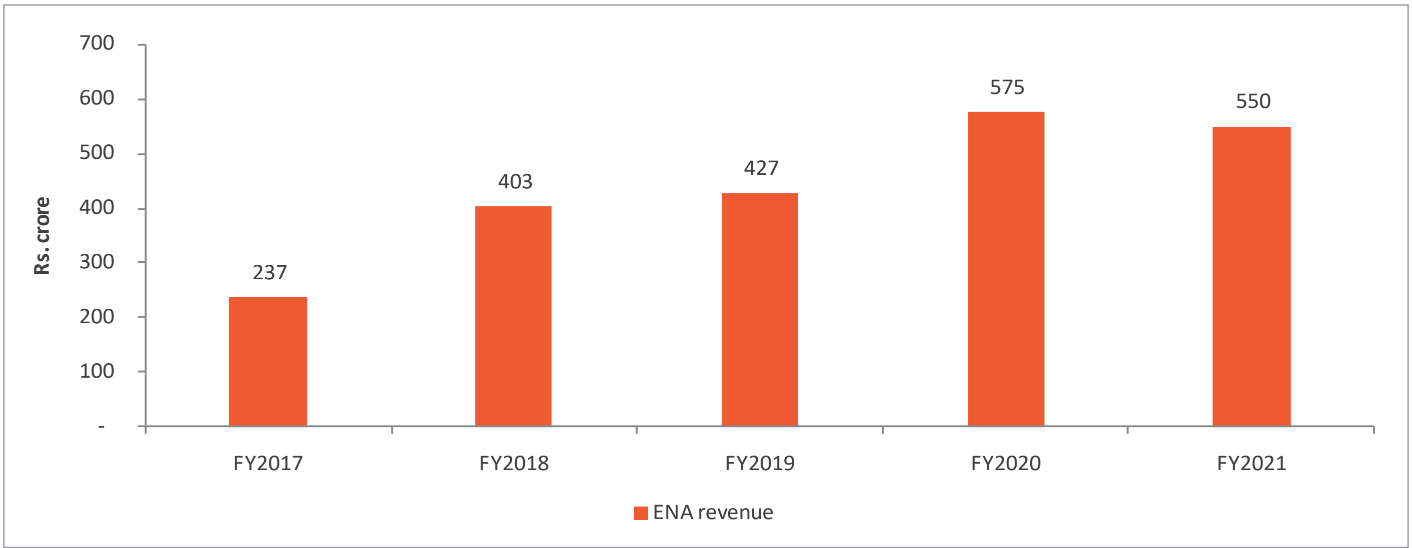
The government of India is targeting 20% ethanol blending with fuel by FY2025 under the National Policy on Biofuels. The country will require ~1,016 crorelitres of ethanol for blending in Petrol in 2025, whereas in 2020, the existing capacity of ethanol was at 684 crore litres. This means that significant ethanol capacity addition will be required to meet the blending target. As per the recently published report by the government on 'Roadmap for Ethanol Blending in India 2020-25', ~50% of ethanol requirement will be met by the sugar industry and rest from grains and other sources. Ethanol manufactured through grain-based distilleries currently amounts to 260 crore litres (35% of targeted capacity by FY2025-26). Inline with the government's ethanol blending policies,many grain-based distilleries are focusing on expanding capacities to get a good share in the government blending policy. GSL has also decided to expand its capacity by 420 klpd in phases over 2-3 years. A large part of the expanded capacity will be fungible in nature and around 75% of expanded capacity will be utilised to manufacture ethanol. Thus we expect bulk alcohol (ethanol) sales volume to touch ~150million litres by FY2023 from 103million litres in the FY2021. The higher demand for grain-based molasses for ethanol blending would result in consistent improvement in the ethanol realisation. Thus, overall with expanded capacity and improved utilisation we expect GSL's bulk alcohol segment (ethanol) revenues to grow at CAGR of 24% over FY2021-23 and manufacturing business revenues to grow at a CAGR of 23% over FY2021-23. GSL's bulk alcohol business earns EBIDTA of Rs. 12-15 per litre.

Capacity expansion of 420 KLPD to be commissioned by FY2023

States	Capacity (KLPD)	Period of operations
Rajasthan	20	Operational
West Bengal	140	Q3FY2022
Bihar	140	H2FY2023
Jharkhand	120	H2FY2023
Total Capacity addition	**420**	

Source: Company, Sharekhan Research

ENA revenue grew at CAGR of 10.9% during FY2018-21



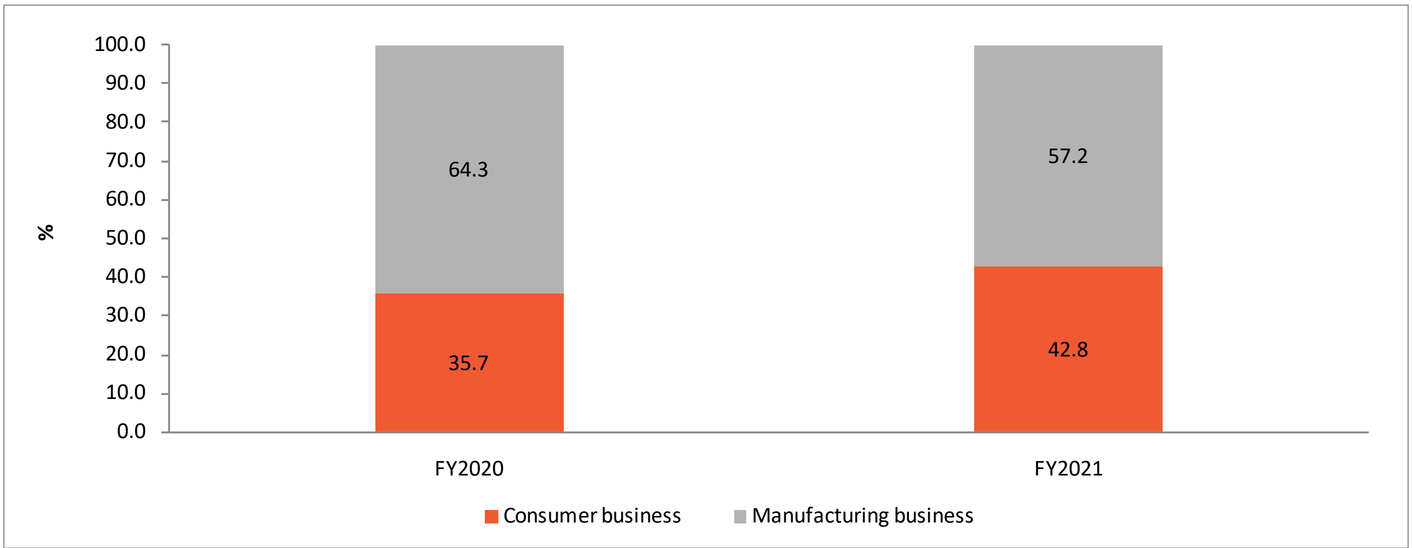
Source: Company, Sharekhan Research

Consumer business to be key profitability driver going ahead

GSL's consumer business' (largely IMIL sales) contribution improved to 43% in FY2021 from 35% in FY2020. The company has presence in markets such as Rajasthan, West Bengal, Haryana and Bihar with product portfolio tilted towards the value segment. The company has recently also expanded in Delhi and has a very minor share in the region. The company earns ~50-60% of its IMIL revenue from Rajasthan, where GSL has a 28-29% share in the IMIL market. During the pandemic, there was a shift in the consumption from premium IMFL segment to the IMIL segment (country liquor) which led to a higher demand for GSL's products. In order to take advantage of the prevalent situation, GSL introduced an intermediate category of products in

Rajasthan under the premium IMIL segment. These products were priced lower (at ~Rs. 70-80 for 180ml) than the premium IMFL products (priced at ~Rs. 125-130 for 180ml) but higher than the regular IMIL products (priced at ~Rs. 36-37 for 180ml). The company witnessed good demand for these products and plans to expand the portfolio by introducing new products going ahead. Until the last few quarters, GSL had a muted presence in Haryana due to higher competition from illicit liquor sales. With a change in the state government's policies, there is a rapid pick-up in branded liquor sales (in IMIL segment as well) benefiting branded players to gain market share in the state.GSL's market share in the state improved to 8-9%. GSLentered West Bengal in 2018 and currently has a share of 2-3% in the IMIL market. GSL's strategy with respect to the value segment is to expand in the deficit states (Rajasthan and West Bengal) which will give the company growth in both value and volume terms and give a quicker return on investment. The consumer business revenues grew by 25% in FY2021 with volume growth of 12% and a 13% growth in realisation. With the consistent addition of new products in the value portfolio, expansion in the new alcohol deficit state and increasing shift to branded IMIL products would continue to drive the growth for consumer business in the near to medium term. The business has margins 2x more than the bulk business margins. With improvement in the mix in medium to long term, GSL's operating margins are expected to consistent improve in the coming years.

Consumer business contribution improved to 43%



Source: Company, Sharekhan Research

UNIBEV merger to focus on premiumisation

Premium products contribute just 0.5% of consumer business revenues. Unibev is a 100% subsidiary of GSL, which is focusing on scaling up presence in high margin, low-volume,fast-growing premium IMFL segment dominated by a few select brands. The sharp rise in discretionary spends, increasing number of aspiring consumers and lack of options makes this category particularly attractive. Unibev, backed by an experienced team having a strong track record of creating successful brands, is poised to leverage these trends. Unibev's L'Affaire Napoleon Premium French brandy, created with 3-year old matured grape spirit, was launched in Puducherry in December 2017. Since then, Unibev has launched Governor's Reserve whisky created with 12-year old matured scotch and Oakton Barrel Aged Whiskycreated with 18 Year Old matured scotch. Unibev is now present in 10 markets in India mainly in South India and parts of East and West India. The company is focusing on scaling up the premium segment by adding more products in the portfolio in the coming years.

Strong financial performance in Q4 and FY2021

In Q4FY2021, gross revenue grew by 65.5% y-o-y to Rs. 490.9 crores backed by increase in both volume and value, mainly in the consumer business segment. The share of the consumer business (value segment) increased by ~900 bps y-o-y from 34.6% in Q4FY2020 to 44.0% in Q4FY2021. Aggregate value segment revenue grew by 68% y-o-y to Rs. 156.5 crore in Q4FY2021 and realizations came in at Rs. 419 per case in Q4FY2021, up from Rs. 373 per case in the same period last year. The value segment total sales volumes grew by 50% y-o-y to 3.74 million cases in Q4FY2021. Average realization for bulk alcohol increased to Rs. 54.2 per litre in Q4FY2021 from Rs. 51.4 per litre in Q4FY2020. Capacity utilization was 99.4% in Q4FY2021 compared to 88.8% in Q4FY2020. EBITDA margins grew by over 1,000 bps y-o-y in Q4FY2021 to 24.7%, on account of a better revenue mix due to higher share of consumer business, and better realizations on ENA and ethanol. Finance costs declined by 17.9% y-o-y to Rs. 4.1 crores in Q4FY2021. PAT grew by 161.5% y-o-y to Rs. 50.6 crore in Q4FY2021 on account of operating efficiency coupled with decline in finance cost. PAT margin doubled to 14.2% in Q4FY2021 from 7.1% in Q4FY2020.

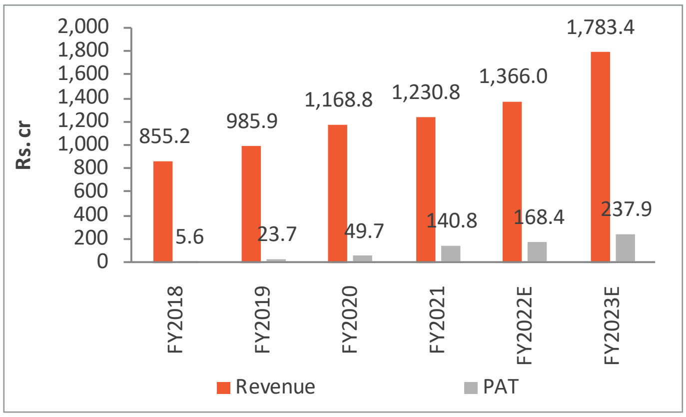
For FY2021, gross revenue grew by 31.9% to Rs. 1231 crore, well supported by volume and value growth in the consumer business segment. GSL's consumer business segment contributed a higher share of 43% of revenue in FY2021 as against 35.0% in FY2020. Revenue from the consumer business for FY2021 was Rs. 513.7 crores with sales volume of 12.3 million cases sold during the year. Manufacturing constituted 57% of the revenue in FY2021, down from 64.0% in FY2020. The revenue from manufacturing came in at Rs. 549.5 crores with 103.2 mn bulk litres of alcohol sold during FY2021. EBITDA margin expanded by ~1,002 bps y-o-y to 20.7% in FY2021 on the back of improved revenue mix and higher realizations on ENA and ethanol. Decline in finance cost by 20% y-o-y to Rs. 18.8 crore along with EBITDA margin expansion led to sharp increase in the PAT by 183.3% y-o-y.

Cash flows to improve, balance sheet to remain lean despite strong capex programme

Stable working capital, lower cash outlay for tax due to availability of MAT credit and a reduction interest cost led to net cash from operations to improve to Rs148.4 crore in FY2021 from Rs. 30.6 crore in FY2019. The company strengthened its balance sheet by reducing debt of Rs. 75 crore to Rs. 176 crore in FY2021. The average cost of debt reduced to 8.8% in FY2021 from 12.5% in FY2020. Thus, the reduction debt and lower average cost of debt led to 20% decline in interest cost in FY2021. The interest cost is expected to further decline in the coming years with the company planning to consistently reduce debt in the coming years. With a sustainable increase in the sales volume of ethanol segment and increase in the contribution of consumer business, the company's cumulative operating cash flows (OCF) is expected to grow at by ~Rs. 500 crore over FY2021-23. Thus despite strong capital expenditure plan of Rs. 225 crorein the next two years, the company balance sheet is expected to become net cash positive by FY2023 (with debt likely to reduce by Rs. 70-80 crore).

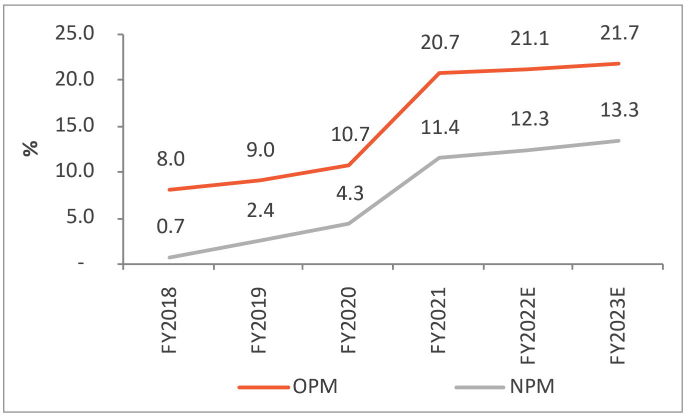
Financials in charts

Revenue and PAT to grow at 20% and 30% CAGR over FY2020-23



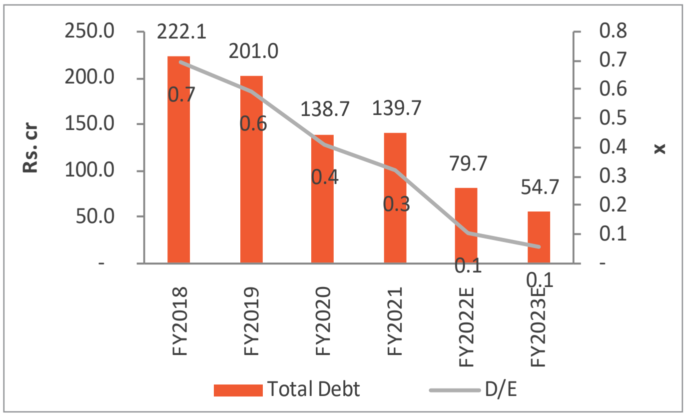
Source: Company, Sharekhan Research

Significant margin expansion expected going ahead



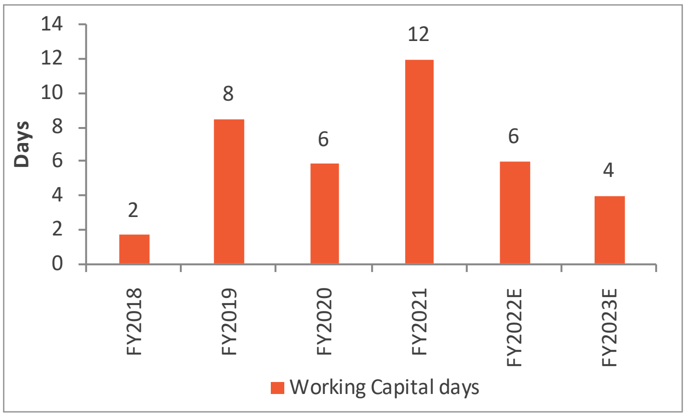
Source: Company, Sharekhan Research

Debt to reduce substantially and Debt/equity to be at 0.1x by FY2023



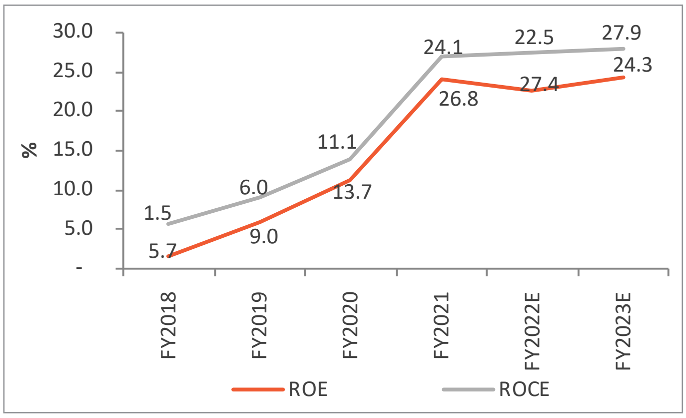
Source: Company, Sharekhan Research

Working capital position to improve



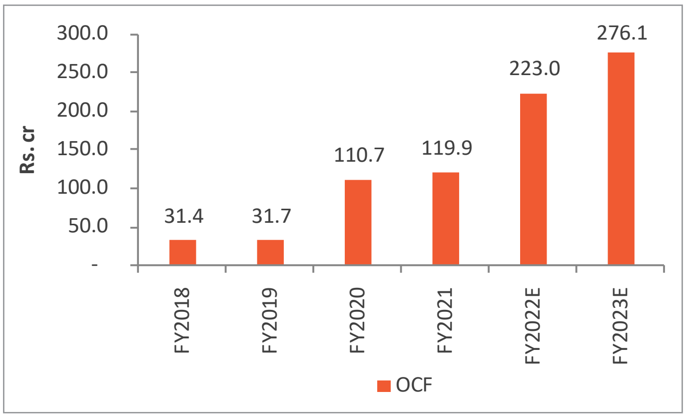
Source: Company, Sharekhan Research

ROE and RoCE to see an improvement



Source: Company, Sharekhan Research

OCFs consistently improving



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 could translate into ~40% of the total population (excluding Below Poverty Line). The 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 a 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.

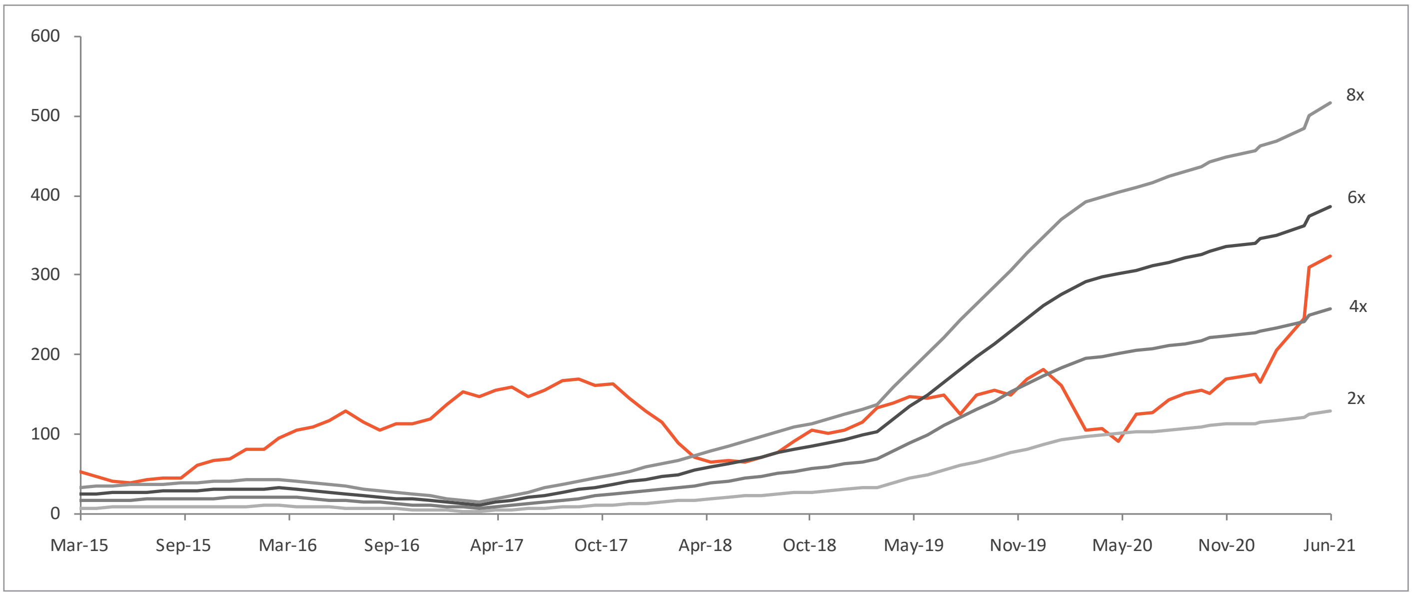
Company outlook - focus on sustainable earnings growth

Its business model helped GSL's revenues and operating profit to clock a CAGR of 13% and 55% over FY2018-21. It will be one of the key beneficiary of change in the government'sethanol policy with 50% of ethanol blending expected to happen through grain base. Around 75% of expanded capacity (of 420 klpd) will utilised for manufacturing of ethanol. Thus we expect GSL's bulk alcohol sales volume and revenues to grow at CAGR of 20% and 24% respectively over FY2020-23. The contribution of 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 the states. This will further improve the company's profitability in the coming years.

Valuation - initiate viewpoint with Positive view and upside of 25-27%

With a two-pronged business model GSL is well place to achieve strong revenue and PAT CAGR growth of 20% and 30% over FY2020-23. The company will be one of the key beneficiaries of the changing ethanol policy which will lead to consistent growth in revenues and expansion in margins 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 augurs well in the long term. The company's balance sheet has strengthened with reduction in debt and improvement in the operating cash flows (likely to be net cash positive by FY2023). The stock is currently trading at attractive valuations of 10.2x its FY2022E EPS and 7.2x its FY2023E EPS. We initiate viewpoint on the stock with potential upside of 25-27% for the next twelve months.

One year forward PE band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
United Spirits	104.9	60.0	41.2	49.7	36.0	26.7	24.9	29.6	27.8
Radico Khaitan	38.0	34.7	28.1	25.5	22.6	18.5	18.2	18.7	20.7
Globus Spirits	12.2	10.2	7.2	7.0	5.9	4.0	26.8	27.4	27.9

Source: Company, Sharekhan estimates, consensus estimates

About company

Established in 1992, Globus Spirits Limited (GSL) is one of the leading players in the Indian Alcoholic Beverages Industry. The company is engaged in manufacturing, marketing and sale of 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% of revenue and comprises bulk spirits, franchisee bottling and by products whereas consumer business segment contributes ~43% of revenue and comprises 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 beneficiary 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 30% 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 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 & COO
Mr.Ashish Lakhotia	CFO
Mr. Santosh Kumar Patnaik	Company Secretary

Source: Company