

November 6, 2018



GLOBUS SPIRITS LIMITED

Foray into IMFL Branding segment; Ethanol to drive profitability

SHARE PRICE: 155

BREWERIES & DISTILLERIES

TARGET PRICE: 231

TARGET PERIOD: 12 months

Globus Spirits Limited (GSL) is one of the leading grain-based distillery companies in India. Over the years, the company has transformed its business from a bulk alcohol manufacture to a 360° alcohol beverage player. GSL has diversified its operations into the entire value chain of liquor from the sale of Extra Neutral Alcohol (ENA) to marketing and selling of Indian Made Indian Liquor (IMIL) and contract bottling for leading IMFL (Indian Made Foreign Liquor) players. The company has a total manufacturing capacity of 150 million litres of bulk alcohol and a bottling capacity of ~ 18 million cases per annum, spread over five integrated manufacturing facilities in Behror (Rajasthan), Samalkha & Hisar (Haryana), Burdwan (West Bengal) and Hajipur (Bihar). In contract bottling, the company does bottling for the popular brands of leading IMFL players such as Officer's Choice (Allied Blenders Distillers) and McDowell's No. 1 (Diageo India). GSL also markets distilled dried grains soluble (DDGS), a by-product generated from the liquor manufacturing process which is used as animal feedstocks.

IMIL, popularly known as Country liquor, which is especially consumed by the low-income group in India. A Brand in IMIL segment is a regional brand rather than a national brand. GSL has five brands in the IMIL i.e. Nimboo & Narangi (Haryana), Ghoomar & Heer Ranjha (Rajasthan) and Goldee (West Bengal).

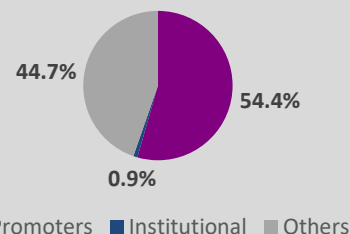
GSL has forayed into a premium segment of IMFL through its subsidiary "UNIBEV". UNIBEV has started IMFL branding by launching three brands named Oakton Whisky and Governor Reserve Whisky in Karnataka market and Laffaire (Brandy) in Kerala and Karnataka market.

BUY

KEY DATA

52w H/L (INR)	97/215
3m Avg TO (INR M)	1107
Free float (%)	26.0%
Issued shares (Cr)	2.88
Mcap (INR Cr)	461
Face Value (INR)	10

Share Holding Pattern



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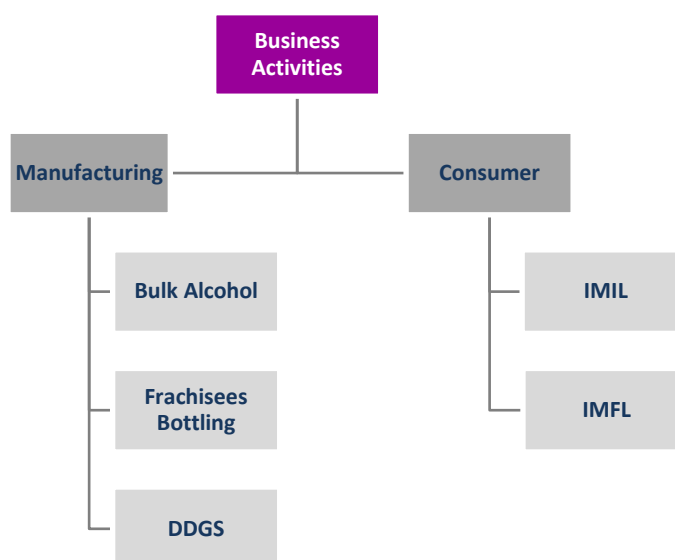
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BUSINESS STRUCTURE

The company has broadly categorised its business into manufacturing business, which includes bulk alcohol, franchise bottling and DDGS; and the consumer business, which comprises of the IMIL segment. In FY18, the company generated 58% and 42% of its total revenue from manufacturing and consumer segments respectively. GSL has entered into the IMFL segment through its subsidiary UNIBEV, founded in collaboration with Mr. Vijay Rekhi, ex-CEO of United Spirits Limited. This segment will add to the revenue from the current financial year. Unibev will follow an asset light business model, which will help to reduce operational risk and the requirement of huge initial cash outflow for setting up manufacturing facilities.



Bulk Alcohol: Bulk Alcohol division is the backbone of the entire value chain of the company. GSL is one of the leading players in the grain-based distillery in India. The company has a total manufacturing capacity of 150 million litres of bulk alcohol. This includes a capacity of 27 million litres of bulk alcohol in Bihar, which was previously shut down because of the liquor ban by the Government of Bihar in the state. However, the capacity in Bihar has started operations from the month of October 2018 after the government of Bihar has allowed manufacturing of ENA and export to other states. In FY 18, the company produced 114 million litres of bulk alcohol, compared to 88 million litres in FY 17. The capacity of 33 million litres of bulk alcohol in West Bengal became fully operational from FY18, which has added to the revenue of the company, fostering a revenue growth of 29% in FY 18. The capacity utilisation was lower at 93% in FY 18 compared to 98% in FY 17 due to the start of a new facility in West Bengal. Bulk alcohol division is also used as a captive capacity for the IMIL and franchise bottling division. Going forward, we expect the company will utilize its bulk alcohol capacity more towards IMIL and franchise bottling divisions, which have better realisation compared to bulk alcohol. As per management of the company, the bulk alcohol contribution is ~ INR 7-8/ litre; whereas, the contribution of franchise bottling and IMIL is ~ INR 11-12/ litre and ~ INR 20/ litre respectively.

Franchises bottling business: GSL has a total bottling capacity of ~ 18 million cases per annum, which is used for both internal consumption in IMIL division and bottling division for other IMFL players. The company provides bottling services for the popular brand of leading IMFL players such as Officer's Choice (Allied Blenders Distillers) and McDowell's No. 1 (Diageo India). The newly

started integrated facility in West Bengal will aid to the revenue growth in the bottling division, with the addition of new bottling clients and additional business from existing clients in West Bengal. We expect that the revenue from bottling business will grow at a CAGR of 9% in FY18-23E.

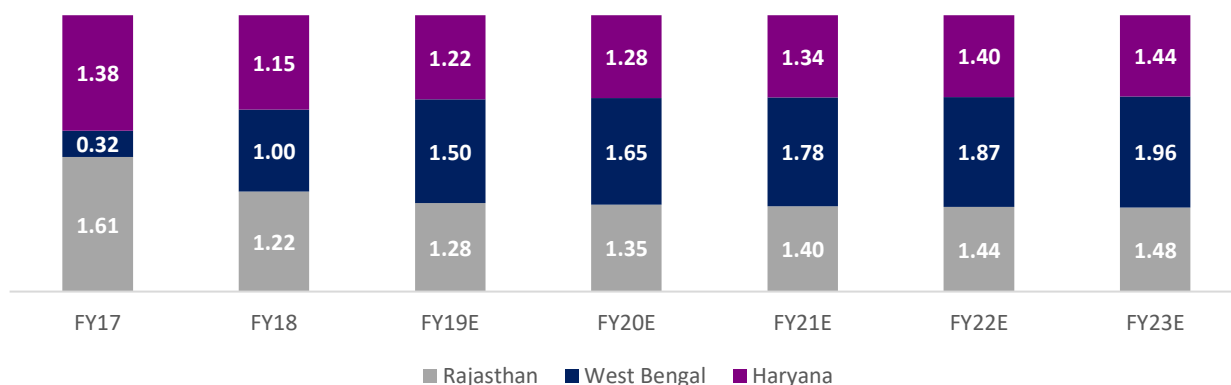
Bottling for Diageo & USL in Haryana & West Bengal



Bottling for ABD in Rajasthan




Bottling division performance (No of cases in Million)



Source: Company, Prithvi Finmart

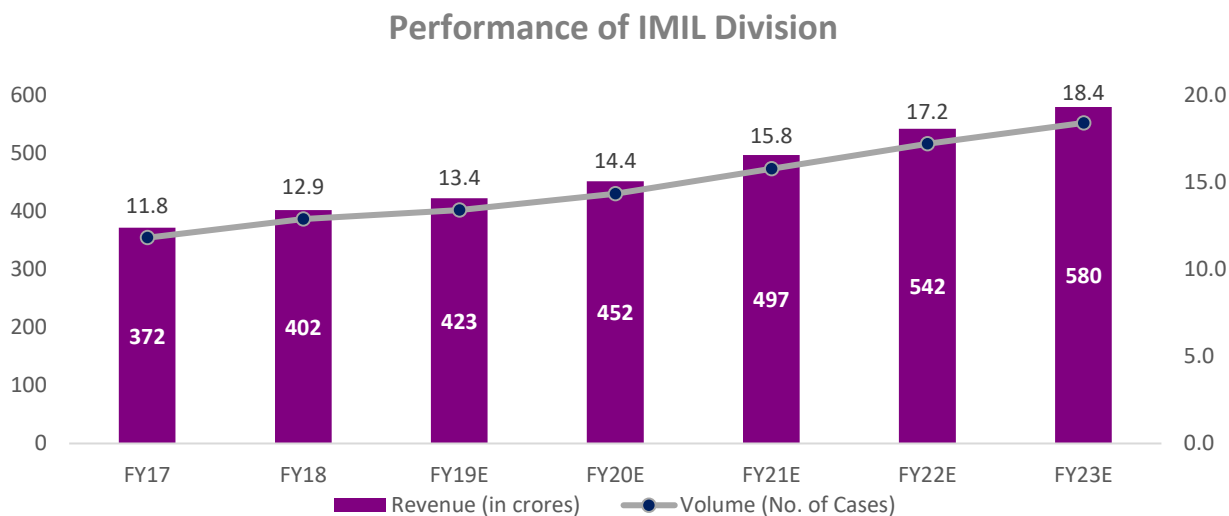
IMIL Business: IMIL, which is popularly known as Country Liquor, is the most profitable business for the company. IMIL is a flavoured alcoholic beverage primarily consumed by the lower income group in India. GSL is one of the leading players of IMIL in the North India market, which is a major market for country liquor in India. The company forayed into IMIL in 1999, starting with Rajasthan market and since then it has created a larger presence in the markets of Rajasthan, Haryana and Delhi. GSL is the largest private player of IMIL in Rajasthan with a market share of 32%; whereas third and fourth largest player with market share of 18% and 10% in the Delhi and Haryana respectively. In FY 18, the company has entered into West Bengal market with the launch of IMIL brand “Goldee” and capture market share of ~ 2% in short span of time. The company sells its IMIL under five different brands with keeping in mind the taste and preference of the consumers in different regions.

Description of Brands in IMIL segment:

<p>Brand</p>			
<p>Product Market</p>	<p>Haryana and Delhi</p>	<p>Rajasthan</p>	<p>West Bengal</p>
<p>Product Description</p>	<p>Nimboo: 1st IMIL brand in India positioned as awesome mix of natural lemon flavour with strong yet smooth blend profile.</p> <p>Narangi: Popular dark spirits’ brand positioned as refreshing and juicy as Orange.</p>	<p>Ghoomar: Tribute to Rajasthani folkdance; blend popular in the harsh winter months of the desert region</p> <p>Heer Ranjha: Tribute to the most popular romantic tales of the region. Smooth blend to enjoy straight up.</p>	<p>Goldee: Goldee is the new brand in the IMIL portfolio. Goldee brand is launched in West Bengal.</p>

In the IMIL business, Rajasthan is the major market for the company. 75% of the bulk alcohol capacity in Behror, Rajasthan is used for captive consumption of IMIL and franchise bottling and hence the growth of IMIL in the Rajasthan is limited. The Rajasthan government has announced a much awaited price hike of 10% in IMIL. The growth in IMIL segment will be primarily driven by a higher conversion of bulk alcohol into IMIL in the Haryana and West Bengal. Currently, captive consumption in Haryana and West Bengal is ~ 27% and ~ 16% respectively, which is way below the captive consumption in Rajasthan. We expect a fast ramp up of IMIL conversion from bulk alcohol for the West Bengal location because of supply deficit of liquor in this market. We also expect that the company will slowly recapture its lost market share in Haryana and increase revenue share of IMIL revenue in the overall revenue from Haryana facilities gradually. Further, the management of

the company expects to launch of other IMIL brands in the near future. We expect IMIL revenue to grow at a CAGR of 7.6% in FY18-23E period.



Source: Company, Prithvi Finmart

IMFL Business (Unibev): GSL has incorporated its subsidiary – Unibev Limited to establish itself into the prestige & above alcoholic beverage market and create its own IMFL brand. The company has entered into IMFL segment in collaboration with Mr. Vijay Rekhi. GSL has a 90% share in the company and 10% share are held by Mr. Vijay Rekhi. Mr. Rekhi was the former CEO of USL and has helped USL become one of the popular liquor companies in the world. In the first year of operation, Unibev has launched three brands i.e. Oakton, Governor Reserve and Laffaire in the Karnataka, Andhra Pradesh, Kerala, Pondicherry and West Bengal markets. The company has plans to introduce eight-nine brands in these markets. Unibev will run on an asset light business model, which will reduce operational risk and risk of initial investment in setting up manufacturing facilities.

Unibev has identified 15-16 states to launch its brands; however, the company has framed a strategy to add new states gradually. Unibev has established 300 distribution channels across these markets and has planned to reach 15k+ outlets in the next 5 years. The company expects to achieve sales volume of 2-4 million cases with a market share of 10% for its various brands. Unibev will invest around INR 100 crores for expanding its brands in various markets.

L'affaire-Brandy



L’Affaire Brandy is a classic blend of the finest 3-year-old brandy from the famous grape growing regions of France and Indian grape spirits.

Competitive Brand: Morpheus (Radico Khaitan) and Kyron (ABD)

Category: Premium

Price: 1350/- of 750 ML

Oakton Rare Grain Whisky



Oakton Rare Grain Whisky, barrel aged rare premium grain whisky is a unique blend with upto 18-year-old imported scotch and matured Indian malts.

Competitive Brand: Blenders Pride (Pernod Ricard) and Signature (Diageo India)

Category: Super Premium

Price: 1400/- of 750 ML

Governor’s Reserve



Governor’s Reserve, a 100% premium grain whisky is a carefully crafted blend with upto 12-year-old imported scotch and matured Indian malts.

Competitive Brand: Royal Stage (Pernod Ricard) and Royal Challenge (ABD)

Category: Premium

Price: 1042/- of 750 ML



In addition of above brand, Unibev has planned to launch new whisky named “**Seventh Heaven Blue- 21 year-old-grain based whisky**” this year. This brand will be launched to compete with Antiquity Blue.

Animal Feeds (DDGS):

Distiller's dried grains with soluble (DDGS) is a by-product of alcohol manufacturing process, which is used for animal feeds. The company has total DDGS capacity of 40000 tonnes per annum. This product is a substitute of maize and corn based DDGS and contains even higher protein. GSL is one of the few manufacturers produce rice based DDGS. In FY18, revenue from DDGS has increased from INR 78.14 crores to INR 86.79 Crores. Despite the volume growth of 30% in FY 18, the DDGS revenue has grown by 11% only due to the lower realisation.

INVESTMENT RATIONALE

Resumption of Bihar capacity: In 2016, the company has strategically set up an alcohol manufacturing facility in Bihar to meet the alcohol demand in the state. In 2017, the Bihar plant was shut down pursuant to order by the Government of Bihar to ban sale of liquor in the state. In 2018, the Government of Bihar has issued a notice that a company can manufacture bulk alcohol and export to other states. In line with recent development in Bihar, the company has restarted operation in the state.

As this plant was originally set up to establish the IMIL brand in the Bihar market, the state government's order that a company can sell ENA and ethanol only will lead to lower ROI. Bihar is a bulk alcohol surplus state where realisation is INR 39/litre, compared to INR 45/litre in a deficit state. Considering this, the Bihar facility is expected to contribute revenue of INR 100 at 90% utilization in FY20. EBITDA margin will be in range of 7-8% compared to overall EBITDA margin of 9-11%. However, the realisation from the Bihar facility can improve, backed by tie up with OMCs for the sale of ethanol, which has a higher realisation. A higher realisation for ethanol compared to bulk alcohol will generate operating leverage and higher profit for the company.

Government steps toward increasing ethanol blending: With a vision to have a pollution free environment, the Government of India (GOI) is taking various measures to curb air pollution such as promoting higher use of biofuels, providing incentive to set up ethanol plants, allowing the production of ethanol directly from sugarcane juice and B heavy molasses (intermediate product of sugar cane processing) and hiking ethanol price. Further, increasing the crude price to reduce dependence on oil imports, the GOI has planned to use more ethanol in petrol blending. Currently, the GOI has set up a target to achieve 10% ethanol blending by 2020 against current blending rate of 4% and intended to raise it to 20% by 2030.

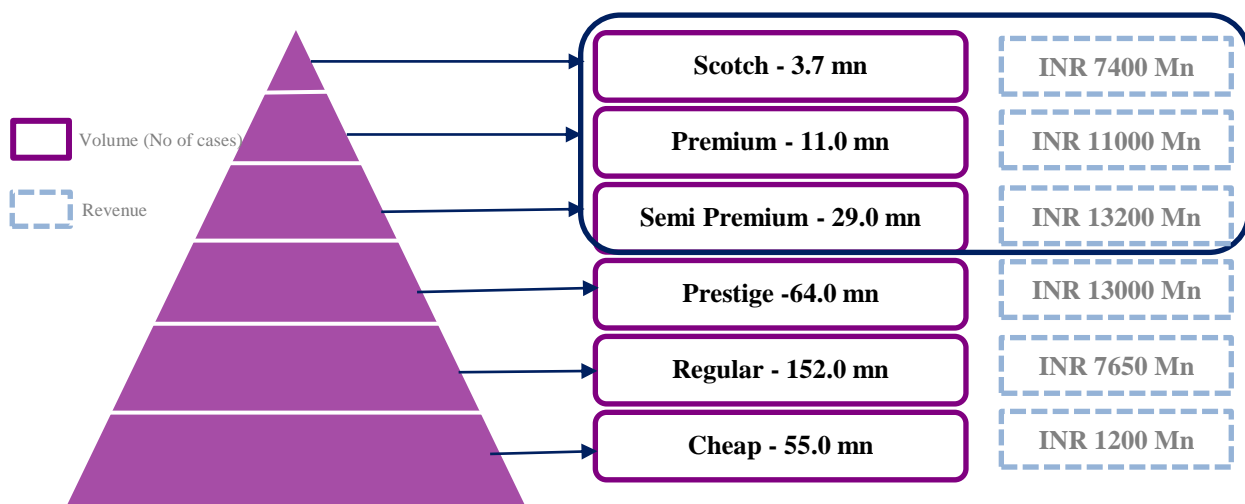
Considering this, the company is rightly positioned to take advantage of positive developments in ethanol sector. GSL is one of the leading players of grain based ENA. The company will do an additional capex of INR 10 Cr in Haryana and West Bengal for conversion of bulk alcohol to ethanol. Grain based ethanol price fixed by GOI commands premium price than C-heavy molasses (by-product of sugar). Grain based ethanol price is INR 47.13/ litre compared to the price of ethanol made from C-heavy molasses, which is INR 43.46/ litre.

The management has indicated that the average realisation for bulk alcohol is INR 39/litre in an alcohol surplus state and INR 45/litre in a deficit state. Rajasthan and West Bengal are surplus states; whereas Haryana and Bihar are deficit states. GSL operates in four states i.e. Rajasthan, Haryana, West Bengal and Bihar. The company has both ENA and ethanol capacities in Rajasthan and Bihar; whereas Haryana and West Bengal facilities have ENA capacity only. The company has plan to sell ethanol from Bihar and Haryana facilities and do capex of INR 10 crores in Bihar and Haryana for conversion of ENA to ethanol. The average realisation of bulk alcohol in these states is INR 39/litres compared to ethanol price fixed at INR 47.13/ litre. The management has indicated that that a conversion of ENA to ethanol will contribute INR 5/litre in the bottomline. Since 75% of the bulk alcohol produced from Rajasthan facility is being used for captive consumption in IMIL and franchise bottling and realisation is already higher, it is not viable for the company to sell ethanol. In West Bengal, the company see huge opportunity in the IMIL segment which has better realisation compared to Ethanol. We expect that the company will sell more ethanol which will increase the average realisation and consequently drive the operating leverage.

Increasing IMIL brand presence in West Bengal: GSL has established an integrated facility of alcoholic beverage in West Bengal to cater the liquor market in West Bengal. West Bengal market has alcohol deficit of ~80 million litres. Being deficit state, this market gives premium pricing for the bulk alcohol and there is a huge opportunity for the IMIL (Country Liquor) manufactures. Apart from IFB Agro, there are no other big players in this market. The West Bengal market has a large number of low-income groups who consume IMIL. The company has launched IMIL brand “Goldee” last year which has shown encouraging response in this market. Few more IMIL brands are in pipeline to be launched in the West Bengal market. The current capacity utilization of West Bengal facility is ~94% and captive consumption is ~20% only, which provides an enormous growth opportunity for the IMIL brand. Moreover, the company has the opportunity to generate more revenue from bottling services in this market. A change in sales mix towards value added products like IMIL and bottling services will provide overall growth for the company.

Foray into IMFL branding: GSL has strategically formed Unibev in tie-up with Mr. Vijay Rekhi, a veteran in IMFL market, to enter into IMFL segment of the alcoholic beverage. The company’s focused area in the IMFL segment is prestige and above category to cater higher income group class. A statistic has shown that prestige and above IMFL category contributes 60% to the IMFL market, with 14% of volume only. Rising per capita income, change in lifestyle, a shift in the taste and preference towards premium product, social acceptance and awareness about the quality categories are the key driving factors for the growth in the prestige and above category. This category commands premium price, which leads to better realisation and higher margin. The company has an investment plan of INR 100 Crores in Unibev in the next 3-4 years. The company has already launched its three brands of Whisky and brandy in markets like Karnataka, Andhra Pradesh, Kerala, Pondicherry and West Bengal. Unibev has a strategy to follow an asset light business model and will contract with regional distilleries to do bottling.

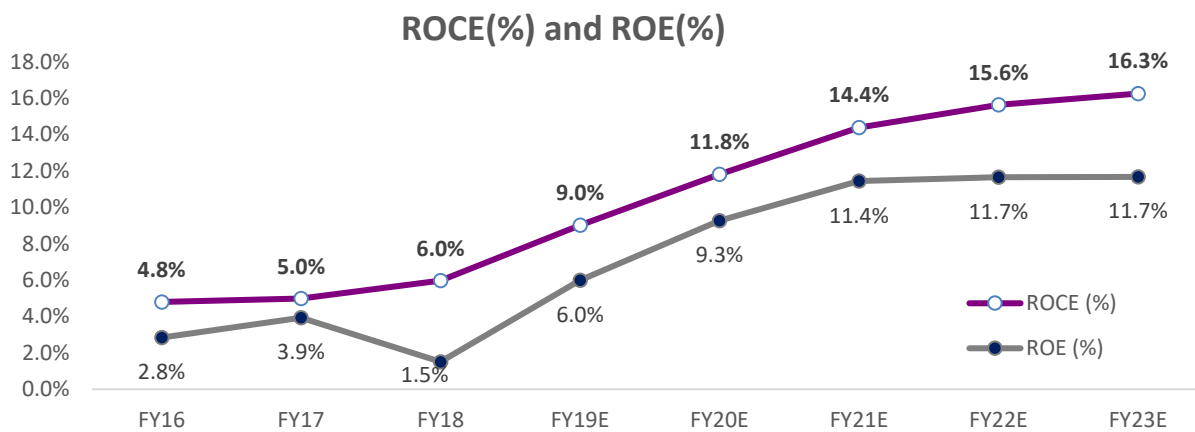
Market size of IMFL segment in India:



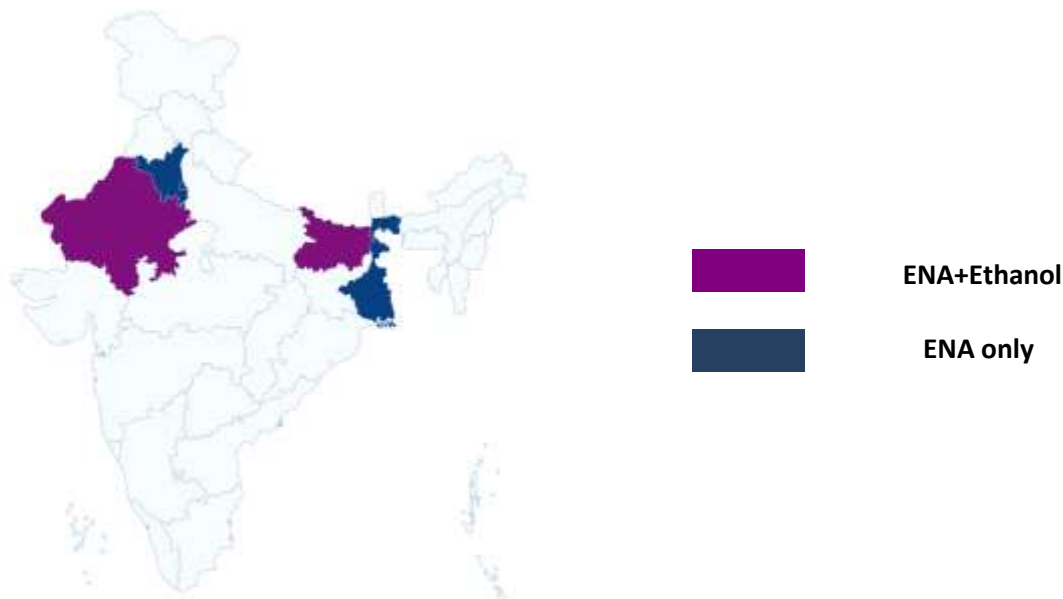
Strategy for IMFL segment in the next 5 years:

- Launch 6-8 brands in various product categories like Whisky, Brandy, Rum, Vodka.
- Increase distribution channel over 15000+ outlets.
- Span over 16-17 states with higher consumption of alcoholic beverage group.
- Sale over 2-4 million cases of IMFL in identified markets.
- Capture 10% of IMFL’s market share.

Driving higher ROCE and ROE: The last couple of years were challenging for the company as well as for the alcohol industry. In 2016, the company has set up two plants in Bihar and West Bengal. Due to order of Bihar government to ban alcohol in the state, the company had to shut down its Bihar facility. Consequently, the company bore the burden of interest cost and depreciation, which has resulted in lower profit and ROCE. In 2017, the Supreme court orders to ban alcohol near national highway, which resulted in slow down of business. Some steps taken by the company in these regards i) Recommencement of operations in Bihar, ii) Conversion of bulk alcohol into ethanol, iii) Utilization of West Bengal facility for bottling service and IMFL, iv) Recapturing the market share of IMIL in Haryana, v) Pick-up in demand for IMFL business. With recent developments, we expect higher ROCE and ROE for the company in the next 3-4 years.



PLANT LOCATIONS



RISKS AND CONCERNS

Government Intervention:

The alcohol Industry is directly or indirectly control by the government and regulatory bodies of different states and union territories. In India, the sale and consumption of alcohol is being restricted depending on the rule in different states and union territories. Currently, there is ban on sale and consumption of alcohol in Gujarat, Bihar, Nagaland and Lakshadweep. Any government orders to ban or restrict use of alcohol in the states where the company operates will have a direct impact on the company's performance.

Higher tax rate:

The alcohol Industry is one of the high taxable industries in India. The government at various states has right to set taxes on alcohol. An increase in tax rate is indirectly proportionate to the consumption of alcohol. Though the demand for alcohol is considered as inelastic but a significant increase in tax rate, will result in higher tax burden on the consumer. It is possible that the company will not be able to pass on an increase in tax on the consumer and eventually, the volume or realisation of the company can decrease.

Higher working capital requirement:

High working capital requirement of the alcohol industry is one of the major challenges for a company. Most of the state in India has a fixed tax rate of 2-2.5x times on IMFL ex-factory prices. Thus, the company needs a high working capital and effective operational management to fulfil this requirement.

Risk of rise in raw material cost:

GSL produces bulk alcohol from the broken rice and 90% of raw material requirement is broken rice only. Any increase in the price of rice will have an impact on the margin. Broken rice is a kind of wastage from the rice mill hence the price of broken rice is not entirely correlated with the rice price. Recent increase in MSP price of Paddy(rice) might have an impact on the raw material price.

Risk of UNIBEV failure:

GSL has recently entered into IMFL category of alcohol in tie-up with Mr. Vijay Rekhi. The company has less experience in the IMFL category because its markets and consumer bases are different from IMIL category. Further, this category of alcoholic beverage faces intensive competition from large players like Diageo India, ABD and Pernod Ricard. It also required a different distribution channel and brand creation. Since India alcohol industry is a media dark industry, where the advertisement of alcohol is restricted, creating a brand is a long process. Earlier, the company had entered into cheap and regular categories of IMFL but could not succeed but now the company has changed its focused categories to prestige and above IMFL. Failure in IMFL business is a major risk and concern for the company.

VALUATION AND VIEW

We believe that GSL well positioned to benefited from the recent business and macro development. The company has delivered good performance in the H1 FY 19 due to full operation of West Bengal facilities and hike in IMIL price in the Rajasthan state. We expect that factors such as i) Restart of operation in Bihar, ii) Conversion of bulk alcohol into ethanol, iii) Utilization of West Bengal facility for bottling service and IMFL, iv) Recapturing of market share of IMIL in Haryana, v) Ramping up in demand for IMFL business will drive the revenue growth, operating leverage and overall profitability of the company.

Our CAGR estimates over the FY18-20E period are; revenue at ~10%; EBITDA at ~25% and PAT at ~168% because of lower base.

We expect EPS of the company to reach INR 14.1 in FY20E. Under EPS valuation method, we have arrived at a valuation of INR 212 i.e., 15x of FY20E EPS.

Under EV/EBIDTA multiple valuation method, we have arrived at a valuation of INR 246, with a multiple of 8x.

Under DCF valuation method, we have arrived at a valuation of INR 231, with a long term WACC of 12.7% and terminal growth of 2.3%.

Our price target is based on the average of the above three valuation methods. At a CMP of INR 155, valuation seems attractive for us to initiate a 'Buy' rating on this stock, with a target price of INR 231 and a potential upside of 49% in 12 months.

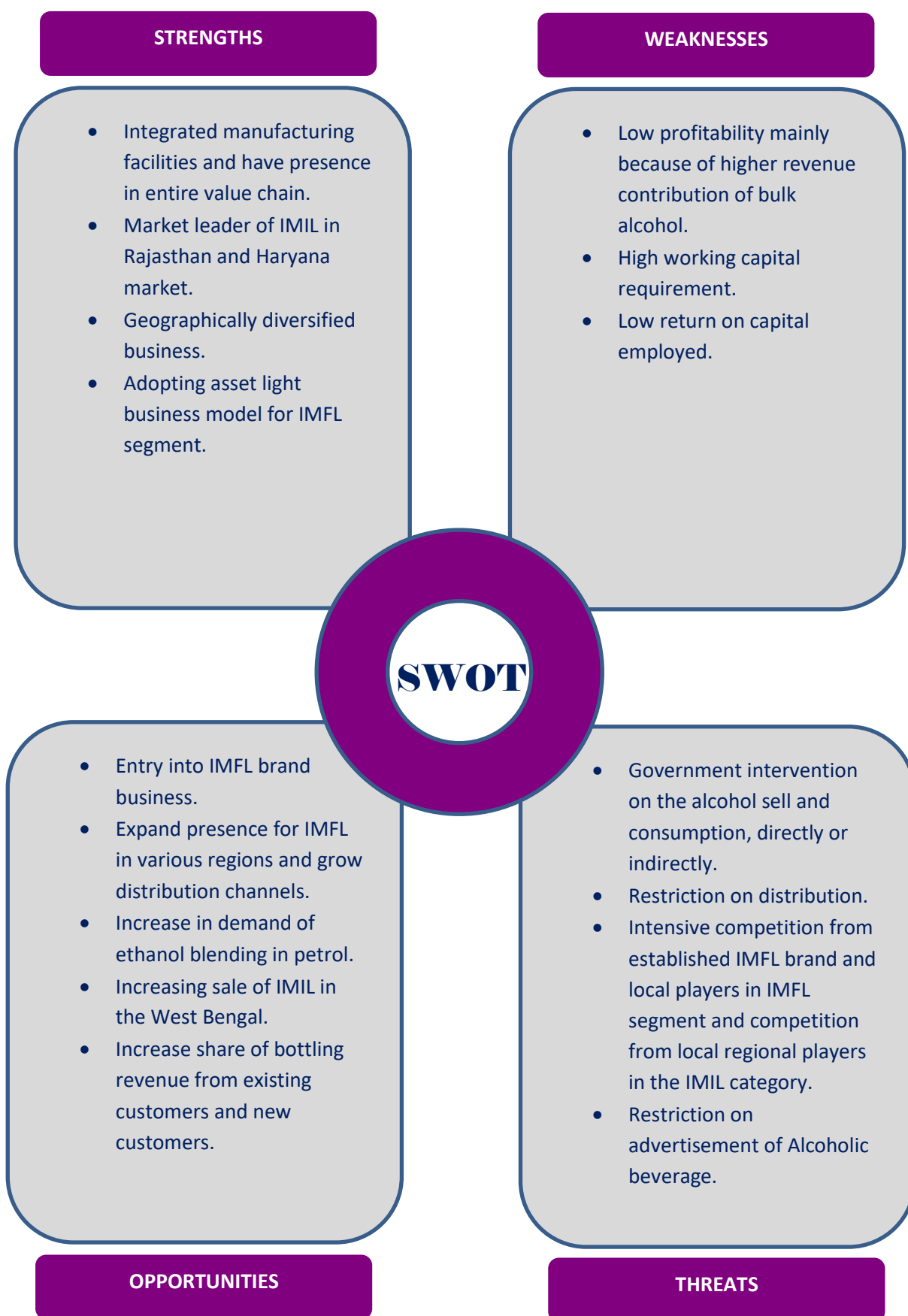
We have not considered UNIBEV financial performance in our valuation though we have taken investment of INR 100 crores in the next 4 years for being on the conservative side. Rational behind above point is that there is a possibility that UNIBEV business will not perform as expected and investment of INR 100 crores write off can arise in books of account of the company.

COMPARATIVE VALUATIONS

Company Name	Market Cap	CMP	EPS		P/E(x)		EV/EBITDA(x)		ROE (%)	
			CAGR	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	
Radico Khaitan	5,338	400	34.2	29.5	24.0	15.2	13.2	14.8	18.9	
United Spirits	45,737	630	23.0	62.5	47.6	33.5	27.6	24.7	25.2	
Globus Spirits	446	155	168.0	18.8	11.0	7.2	5.7	6.0	9.3	

Source: Company, Prithvi Finmart

SWOT ANALYSIS



MANAGEMENT OVERVIEW

Key Management Personnel	Designation	Brief Profile
Mr. Ajay Kumar Swarup	Managing Director	Mr. Ajay Kumar Swarup is the Promoter and Managing Director of the company. He has graduated from Delhi University in Economics and completed PGDBM from the IIM, Kolkata. Mr. Ajay Swarup has over 30 years of experience in the alcohol and distillery industry. He was the President of All India Distillers Association between March 1992- July 1995. He is the key person to take business decision at strategy level and he is also responsible for the business development. He has been key driver for the company's growth.
Mr. Shekhar Swarup	Joint Managing Director	Mr. Ajay Kumar Swarup is the Joint Managing Director of the company and son of Mr. Ajay Kumar Swarup. He is the second-generation entrepreneur and successor of Mr. Ajay. He has graduated in Business Management from the University of Bradford, UK. He is responsible to take business decision at the top level of the company.
Mr. Vijay Kumar Rekhi	Executive Director	Mr. Vijay Rekhi is veteran in the Alcohol industry. He is graduate in Economics and holds MBA degree from IIM, Ahmedabad. He served as the CEO and Managing director of USL and associated with United Breweries for over 38 years. He is responsible to creating IMFL brand for Unibev in India and he is instrumental to growth in Unibev.

INDUSTRY OUTLOOK

India is the 6th largest economy in the world and second largest in term of population. Indian economy is expected to be the fastest growing economy in the world. Strong consumer base and robust economic growth make it one of the best consumption stories in the world. The key factors to drive consumption story in India such as a rise in disposable incomes, favourable demographics towards young population, improvement in accessibility of product and service due to technology advancement, increase usage of e-commerce services, increasing literacy level changing lifestyles and changing consumption habits.

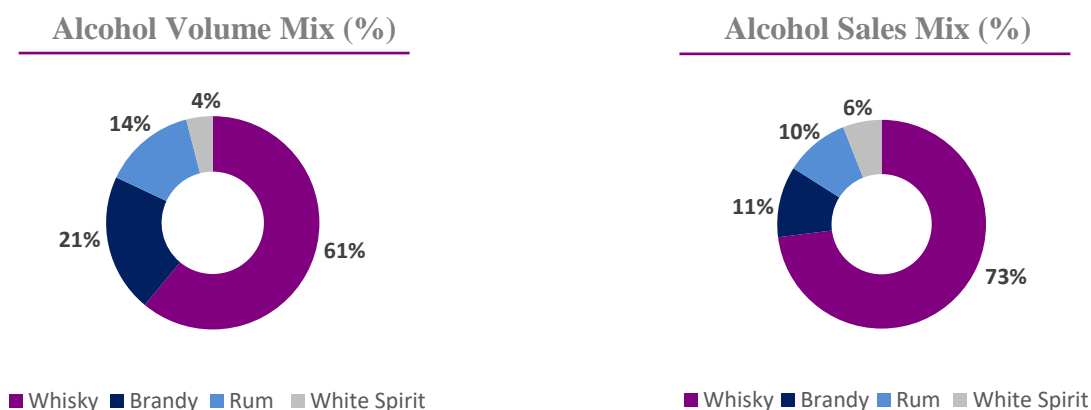
India demographics is mostly skewed toward rural population. 70% of the India population resides in the rural areas. However, increase in urbanisation, rise in literacy rate, access to technology and urge to adopt quality products driving the consumption growth in the rural area. Rural per capita disposable income is expected to grow at a CAGR of 4.4% to \$631 by FY20. Over the year, the transition happened in rural economy as only 23% of income comes from farming business. The Government of India has undertaken various initiatives to drive growth in a rural economy such as direct benefit transfer to farmers, agriculture sector reforms, skill development, loan to small business.

Moreover, half of the India population is young and are of less than 25 age which fuels the growth of Alcoholic beverage in India. Gradually, Indian families are disintegrating from joint family system to nuclear families. Under nuclear families, the young generation is the decision makers who are more willing to adopt a comfortable lifestyle and spend more. Social acceptance of alcohol is also fuelling growth in the alcohol industry.

India is 3rd largest consumer of Alcoholic beverage in the world after China and Russia in both value and volume terms. Indian alcohol industry has reached a market size of \$35 billion. Despite of regulatory challenges such as demonetisation, GST and ban on the highway, it is expected to grow at a CAGR of 7-8% between 2018-2021. India Alcohol Industry is broadly classified into three categories i.e. Indian Manufactured Foreign Liquor (IMFL), Beer, and Indian Made Indian Liquor (IMIL or Country Liquor).

In 2017, 314 million cases were sold. It is projected that IMFL volume will grow at a CAGR of 2.6% to reach 339 million cases by 2021. In term of value, IMFL sales reached INR 2186 billion, a growth of 5.8% compared to last year. It is expected to reach INR 2750 billion by 2022 with a CAGR of 6.0% between 2017-2021.

The Indian alcoholic beverage Industry is significantly captured by IMIL with a share of 80%. IMFL is further classified into brown spirit: whisky, rum, brandy and white spirit: vodka and gin. In 2017, brown spirit and white spirit accounted for 96% and 4% respectively in volume terms and 94% and 6% respectively in value terms.



In Brown spirit, whisky is the dominated alcohol segment with a share of 61%, followed by brandy and rum with share of 21% and 14% respectively in volume terms. Whereas in value terms, whisky was the most preferred alcohol with a share of 73%, followed by brandy and rum with 11% and 10% respectively.

The southern region of India is the major contributor of IMFL with a share of 60% of overall IMFL market. Within the southern region, the states such as Tamil Nadu and Kerala contribute 40% of the southern market. These markets are highly influenced by the government and political group with a strong presence of local players. Due to this, most of the national brand players franchised their brand. Hence, the growth in these markets are not significant. Furthermore, markets like Karnataka, Andhra Pradesh and Telangana are also important markets in term of volume but profitability is lower in these markets due to low priced popular segment market and limited price hike. In term of profitability, western and northern markets are much important market for the IMFL players.

Whisky is the largest segment in the IMFL with volume sold of ~ 195 million cases in 2017. India has the largest whiskey industry with 48% of whiskey consumption in the world. Whisky is the popular alcohol drink in India with a share of ~ 61% in IMFL. Whisky is further categories on the basis of quality and price from cheap whisky to prestige & above segment type. Prestige and above contributes only 15% in volume term but 60% in value term because of premiumisation. The growth in the whiskey will be driven by the growth in Prestige and Above segment.

Prestige & Above segment is the focused segment for the company also because of growth opportunity in this segment. Unibev is looking to create its brand in the market where volume is high and gradually expand its presence in the high profitability market. The company has launched its product in the markets like Kerala, Karnataka, Pondicherry and West Bengal. Moreover, the rising disposable income and rapid urbanisation in Tier II cities are the key growth drivers for this segment. However, intensive competition from existing players entering into new segment and price cut to increase market share are the major challenge for this segment.

After Whisky, Brandy is the second largest category with the volume of ~ 67 million cases. Tamil Nadu and Kerala markets contribute 70% of the overall Brandy volume in India. Local players hold a major share in these markets and it is difficult to penetrate in these markets due to government stringent control on the distribution channel and domination of local players. Rum is the third largest category in the IMFL with the volume of ~ 41 million cases. However, the growth in the Rum category has been declining.

Surprising, vodka category in India has a smaller share in India's IMFL compare to a global trend where vodka is the biggest contributor in the IMFL. However, the growth in this category has been very robust due to an increase in female consumer and pub and discotheque culture in India.

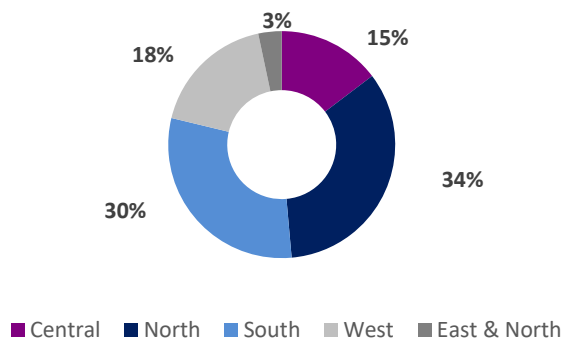
Beer is the most popular alcoholic beverage among young population in India. Though, its total market share in the overall alcohol industry is low, it is the fastest growing drink in India. Strong beer category is the dominated category in India with 85% of volume. Beer Industry stood at INR 562 billion in CY 2017 and expected to grow at a CAGR of 7.4% to reach INR 803 billion.

IMIL or Country Liquor is mostly dominated by regional players and it is mainly consumed by the lower income group. IMIL segment faces intensive competition from homemade liquor popular among local people. Flavour of the country liquor is mainly of fruit favour. Orange and lemon are the most popular flavour in the country liquor. Though, a slight shift has been from unorganised players to organised player like Globus Spirit, however, still it is mostly penetrated by local players. IMFL and IMIL segments cater to different sets of customers with distinct prices, consumption patterns, alcohol content and product types. IMIL is 50% cheaper than the cheapest IMFL making the shift from IMIL to IMFL difficult for an IMIL drinker. GSL has rightly positioned itself in the markets where the opportunity for the IMIL is high. Haryana is the 3rd largest IMIL market after

Maharashtra and UP. West Bengal is the 4th largest and fastest growing IMIL market. In Rajasthan, Rajasthan State Ganganagar Sugar Mills (RSGSM) is a state government owned enterprise and is the major player in Rajasthan IMIL market with market share has been capped at 50%.

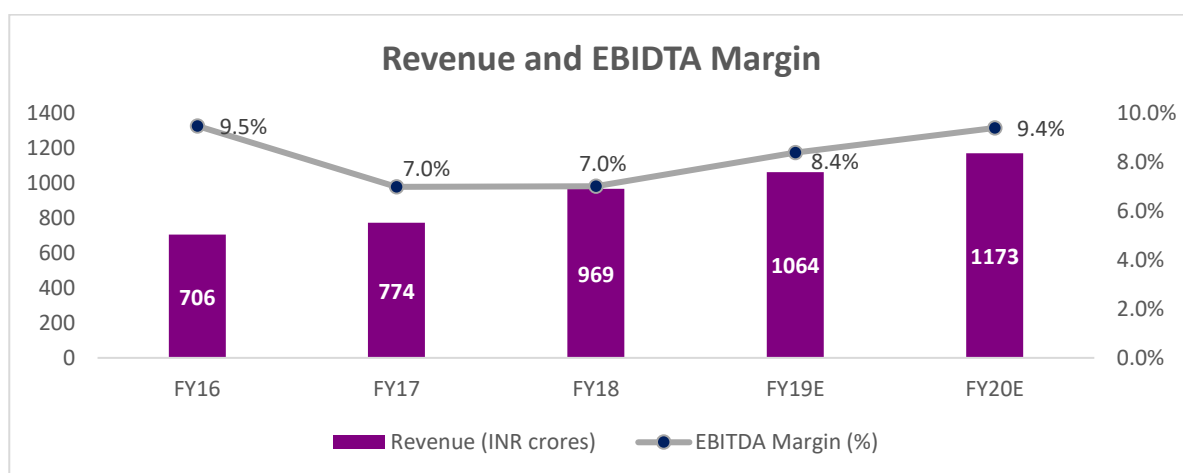
Extra Neutral Alcohol (ENA) production in India reached 2.7 billion litres in 2017 and it is expected to reach at 3.8 billion litres by 2023. In India, 90% of the ENA is used for production of portable alcohol. Most of the IMIL players use ENA as a raw material for manufacturing of alcohol made with other blends. Apart for scotch, beer and wine, ENA is being used in all the IMIL. GSL is one of the leading players in the grain-based ethanol. Punjab was the largest producer of extra neutral alcohol in India. The demand for the ENA has been increased majorly due to increase in consumption of Alcohol. Further, the government has taken several steps in order to meet the target of higher blending of ethanol in petrol upto 10% by 2020 compare to current 4%; this will increase the demand for ENA.

ENA Capacity in India (%) (Million Litres Per Annum)



FINANCIAL HIGHLIGHTS

- Revenue from operation increased from INR 774 crores in FY 17 to INR 969 crores in FY 18; a growth of 25%. Full year operation in the West Bengal facility resulted in the strong growth in FY18. We expect revenue to grow at a CAGR of 10% during the period of FY18-20E. The main growth drivers for the company are i) recommencement of Bihar facility which is expected to contribute around INR 100 crores without conversion of ENA to Ethanol. ii) Conversion of ENA to Ethanol in the Bihar and Haryana facility, which is expected to add INR 5/ litre at the bottom line. iii) Ramp up of IMIL segment in the West Bengal.
- EBITDA margin of the company was 7% in FY18 same as margin in FY17. We expect margin to improve to 8.4% in FY19E due to hike in the IMIL price announced by the Rajasthan government in Q1 of FY19. The management has guided to achieve 11-12% in FY 20. However, we are conservative in our estimate and expect margin to be 9.4% in FY 20E due to change in mix towards value added products.



Source: Company, Prithvi Finmart

- Though we have seen improvement in EBITDA from INR 58.7 crores in FY 17 to INR 73.5; it is not reflected in the bottomline. The higher burden of interest and depreciation of the closed Bihar facility resulted in PAT to INR 5.6 crores in FY 18 compared to INR 14.5 crores in FY 17. We expect PAT to be 23.8 crores in FY 18 due to price hike in Rajasthan and fast ramp of IMIL segment in West Bengal. We expect PAT to grow at a CAGR of 168% for the period of FY18-20E due to lower base in FY 18.
- We expect ROE and ROCE of the company improve from 1.5% and 6% in FY 18 respectively to 9.3% and 11.8% respectively in FY 20 due to recommencement of Bihar facility and change in revenue mix towards consumer business.

BALANCE SHEET (INR Crores) (CONSOLIDATED)

Y/E MARCH	2016	2017	2018	2019E	2020E
EQUITY AND LIABILITIES					
SHAREHOLDERS' FUNDS					
Equity share capital	28.8	28.8	28.8	28.8	28.8
Other equity	324.5	338.8	344.7	368.4	409.0
	353.3	367.6	373.5	397.2	437.8
Minority interests	0.0	0.0	-0.1	-0.1	-0.1
NON-CURRENT LIABILITIES					
Long-term borrowings	159.2	175.0	143.5	114.7	65.2
Long term provisions	1.1	1.4	1.7	1.9	2.1
Deferred tax liabilities (net)	25.3	23.9	25.9	25.9	25.9
Other non current liabilities	0.5	2.2	2.7	3.0	3.3
	186.1	202.5	173.8	145.5	96.4
CURRENT LIABILITIES					
Short-term borrowings	70.5	74.0	78.6	98.6	98.6
Trade payables	72.5	103.4	96.5	105.9	116.7
Other financial liabilities	29.6	35.5	37.9	38.5	60.2
Other Current liabilities	3.0	9.7	19.6	21.5	23.7
Short-term provisions	1.7	1.2	1.5	1.6	1.8
Current Tax Liabilities	0.7	0.0	0.0	0.0	0.0
	178.1	224.0	234.0	266.1	301.0
Total	717.6	794.0	781.1	808.7	835.2
ASSETS					
NON-CURRENT ASSETS					
Fixed assets					
- Property, plant and equipment	409.6	631.7	608.6	596.3	573.0
- Capital work-in-progress	131.3	0.1	0.1	0.1	0.1
- Intangible assets under development	0.0	0.2	0.3	0.3	0.3
	541.0	632.1	609.0	596.8	573.5
Financial assets					
Non Current Investments	0.0	0.0	0.0	25.0	50.0
Long Term loan and advances	5.0	5.7	6.3	6.9	7.6
Others financial assets	20.0	20.5	12.4	13.6	15.0
Income tax assets (net)	1.8	3.0	3.2	3.2	3.2
Other non current assets	51.8	13.7	15.4	16.9	18.6
	619.8	675.0	646.3	662.4	667.9
CURRENT ASSETS					
Inventories	41.4	67.8	73.0	80.2	88.3
Current Investments	0.1	0.0	0.0	0.0	0.0
Trade receivable	37.8	35.3	48.4	53.1	58.5
Cash and cash equivalents	7.4	2.4	2.4	1.0	7.1
Short Term Loan and Advances	1.9	1.0	1.2	1.3	1.5
Other financial Assets	1.4	1.4	1.0	1.1	1.2
Other Current Assets	8.0	11.2	8.8	9.7	10.7
	97.8	119.1	134.9	146.4	167.3
Total	717.6	794.0	781.1	808.7	835.2

Source: Company, Prithvi Finmart

PROFIT AND LOSS ACCOUNT (INR Crores) (CONSOLIDATED)

Y/E March	2016	2017	2018	2019E	2020E
Revenue from Operation	706.4	774.2	969.2	1064.0	1172.5
Other Income	4.2	4.5	5.4	5.4	5.0
Total Income	710.6	778.8	974.6	1069.4	1177.5
Total Expenditure	639.3	720.0	901.1	974.5	1062.3
EBITDA	71.2	58.7	73.5	94.8	115.3
Depreciation	42.2	26.9	36.2	37.2	38.3
EBIT	29.1	31.8	37.3	57.6	77.0
Interest	16.9	17.5	27.1	23.6	19.1
Earning before tax	12.2	14.3	10.2	34.0	57.9
Less: Tax Expenses	2.2	-0.2	4.5	10.2	17.4
Profit for the year (A)	10.0	14.5	5.6	23.8	40.5

Source: Company, Prithvi Finmart

CASH FLOW STATEMENT (INR Crores) (CONSOLIDATED)

Y/E MARCH	2016	2017	2018	2019E	2020E
Cash Flow From Operating Activities	49.6	66.6	51.2	75.8	88.9
Depreciation and Amortisation	42.2	26.9	36.2	37.2	38.3
Cash flow from investing activities	(141.0)	(71.7)	(9.6)	(44.6)	(35.0)
Capital Expenditure	(123.8)	(74.5)	(21.9)	(25.0)	(15.0)
Cash flow from financing activities	93.7	0.1	(42.2)	(32.6)	(47.8)
Loan Raised/(Paid)	110.6	19.0	(15.7)	(29.0)	(28.8)
Interest Payment	(16.9)	(18.8)	(26.4)	(23.6)	(19.1)
Cash generated during the year	2.4	(5.0)	(0.6)	(1.5)	6.1
Cash and Cash Equivalents at Beginning of the year	5.0	7.4	2.3	2.4	1.0
Cash and Cash Equivalents at End of the year	7.4	2.3	1.7	1.0	7.1

Source: Company, Prithvi Finmart

RATIOS

Y/E March	2016	2017	2018	2019E	2020E
Profitability Ratios					
EBITDA Margin (%)	9.5%	7.0%	7.0%	8.4%	9.4%
EBIT Margin (%)	4.1%	4.1%	3.8%	5.4%	6.5%
PAT Margin (%)	1.4%	1.9%	0.6%	2.2%	3.5%
Return Ratios					
ROE (%)	2.8%	3.9%	1.5%	6.0%	9.3%
ROCE (%)	4.8%	5.0%	6.0%	9.0%	11.8%
Growth Indicators					
Sales Growth (%)	20.4%	9.6%	25.2%	9.8%	10.2%
EBITDA Growth (%)	34.6%	-17.6%	25.2%	29.0%	21.6%
EBIT Growth (%)	20.2%	9.5%	17.2%	54.4%	33.6%
PAT Growth (%)	33.3%	44.2%	-61.0%	321.0%	70.5%
Working Capital Ratios					
Fixed Asset Turnover Ratio (x)	1.3	1.2	1.6	1.8	2.0
Asset Turnover Ratio (x)	1.0	1.0	1.2	1.3	1.4
Inventory (Days)	21	32	27	27	27
Trade Receivable (Days)	20	17	18	18	18
Trade Payable (Days)	37	49	36	36	36
Liquidity and Leverage Ratios					
Current Ratio (x)	0.5	0.5	0.6	0.5	0.6
Interest Coverage Ratio (x)	1.7	1.8	1.4	2.4	4.0
Net Debt/Equity (x)	0.7	0.7	0.7	0.6	0.5
Basic (INR)					
EPS	3.5	5.0	2.0	8.3	14.1
Cash EPS	18.1	14.4	14.5	21.2	27.4
BV/Share	122.7	127.6	129.7	137.9	152.0
DPS	-	-	-	-	-
Payout	-	-	-	-	-
Valuation Ratios (x)					
P/E	44.5	30.8	79.0	18.8	11.0
Cash P/E	8.6	10.8	10.7	7.3	5.7
EV/Sales	1.0	0.9	0.7	0.6	0.6
EV/EBITDA	9.7	12.2	9.5	7.2	5.7
P/B	1.3	1.2	1.2	1.1	1.0

Source: Company, Prithvi Finmart

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