

## Multiple triggers in place

Globus Spirits (GSL) reported strong results owing to continued improvement in margin profile in spite of weaker operating leverage. Revenues fell mere 22% YoY to ₹ 230 crore, compared to the liquor industry, in general (fell closer to 45-55% levels), mainly owing to stronger IMIL performance due to better state mix (Haryana performed well), higher bulk realisation (up 14%) and better-than-expected performance of newer product launches. EBITDA grew 46% YoY to ₹ 39 crore mainly due to strong expansion in EBITDA margin (clocked highest ever EBITDA margin of 17.1% vs. 9.1% in Q1FY20, led by higher gross margins, lower fuel, freight & power cost). Subsequently, PAT grew 1.6x to ₹ 19 crore.

## Ensuring stable performance due to diverse segments

GSL covers entire value chain of alcohol manufacturing undertaking an array of operating activities from manufacturing extra neutral alcohol (ENA) to contract bottling of Indian made foreign liquor (IMFL), to marketing & selling IMIL and several by-products. IMIL (~36% of net revenue in FY20) includes Rajasthan as the dominant contributor (~75-80% of IMIL revenues, ~30% market share in the state). Also, the company's JV 'Unibev' (90% owned, 10% owned by former USL MD Vijay Rekhi) has launched three IMFL liquor brands in Prestige & above category in a few states and is gradually ramping up its presence in more states. The management has been slowly building up the franchise across key territories.

## Cash flows expected to stay strong in FY21E

We expect asset utilisation to normalise from Q2 onwards due to multiple triggers like long term ethanol procurement by Government of India and its positive impact on stronger ENA realisation, enforcement of law on illicit liquor trading, downtrading of liquor brands in tier II, III cities due to steep excise hikes and introduction of sanitisers to the revenue stream. Though revenue growth was impacted by lockdown in April and partially in May, GSL has been able to show discipline in improving its margins due to lower other expenses and a control over input costs. The management expects to maintain margins and use the cash flows to lower its debt in near term.

## Valuation & Outlook

In Q1FY21, IMIL, bulk volumes suffered (down ~33%) due to complete lockdown in April and a recovery in May. Volumes have reached normalised levels in June. The management expects volume growth in Q2. Newer brands for IMIL (Goldee, IMIL brand with IMFL like 42.7% alcohol concentration) and newer opportunities for ethanol utilisation would lead to greater usage of captive ENA. We expect margins to be rangebound at 14-15% for FY21E, FY22E. Also, GSL is planning to lower debt, which should reduce interest cost and aid in improving profitability. Subsequently, FCF yield is expected to remain elevated. We maintain **BUY** rating on the stock with a target price of ₹ 220, valuing the business at ~6x FY22E EPS.

### Key Financial Summary

₹ crore	FY19	FY20P	FY21E	FY22E	CAGR
Net Sales	985.9	1,168.8	1,104.9	1,259.8	8.5%
EBITDA	88.3	124.7	158.0	178.9	26.6%
PAT	24.3	49.9	80.7	103.1	61.8%
P/E (x)	21.1	10.3	6.4	5.0	
M.Cap/Sales (x)	0.5	0.4	0.5	0.4	
RoCE (%)	9.5	14.5	19.7	21.5	
RoE (%)	6.1	11.2	15.4	16.5	

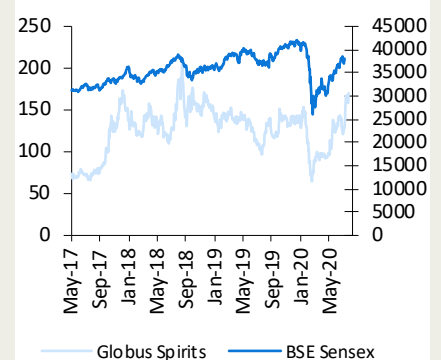
Source: Company, ICICI Direct Research



### Particulars

Market Capitalisation (₹cr)	512.6
52 Week High / Low (₹)	178/61
Promoter Holding (%)	55.7
FII Holding (%)	0.8
DII Holding (%)	0.3
Dividend Yield (%)	0.0

### Price Performance



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## Financial summary

Exhibit 1: Profit and loss statement		(₹ crore)			
(Year-end March)/(₹cror	FY 19	FY 20	FY 21E	FY 22E	
<b>Total Operating Income</b>	985.9	1,168.8	1,104.9	1,259.8	
Growth (%)	15.3	18.6	-5.5	14.0	
Raw Material Expenses	599.0	717.6	668.4	749.6	
Gross Profit	386.9	451.2	436.4	510.2	
Gross Profit Margins (%)	39.2	38.6	39.5	40.5	
Employee Expenses	27.7	34.3	35.4	41.6	
Other Expenditure	270.9	292.2	243.1	289.8	
Total Operating Expenditu	897.7	1,044.1	946.9	1,080.9	
<b>EBITDA</b>	88.3	124.7	158.0	178.9	
Growth (%)	29.4	41.3	26.7	13.2	
Interest	26.3	23.6	18.2	8.0	
Depreciation	36.1	38.0	39.1	41.3	
Other Income	7.1	3.7	7.0	7.9	
PBT before Exceptional It	32.9	66.9	107.6	137.5	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Item	32.9	66.9	107.6	137.5	
Total Tax	9.2	17.2	27.1	34.6	
PAT before MI	23.7	49.7	80.5	102.9	
Minority Interest	-0.6	-0.2	-0.2	-0.2	
<b>PAT</b>	24.3	49.9	80.7	103.1	
Growth (%)	316.8	105.1	61.7	27.7	
<b>EPS (Adjusted)</b>	8.5	17.3	28.0	35.8	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		(₹ crore)			
(Year-end March)/(₹crore)	FY 19	FY 20E	FY 21E	FY 22E	
<b>Profit/(Loss) after taxation</b>	24.3	49.9	80.7	103.1	
Add: Depreciation & Amortiz	36.1	38.0	39.1	41.3	
Add: Interest Paid	26.3	23.6	18.2	8.0	
Net Increase in Current Ass	-26.7	-7.3	-5.2	-20.7	
Net Increase in Current Liab	-3.7	33.8	-4.4	15.8	
Others	-25.8	-2.6	0.0	0.0	
<b>CF from Operating activities</b>	30.6	135.4	128.4	147.6	
(Purchase)/Sale of Fixed As	-16.8	-35.7	-6.1	-40.0	
Long term Loans & Advanc	3.2	-4.8	0.0	0.0	
Investments	0.0	0.0	-40.0	-30.0	
Others	13.7	13.0	-34.1	-0.5	
<b>CF from Investing activities</b>	16.9	-27.4	-80.1	-70.5	
(inc)/Dec in Loan	-21.1	-63.7	-30.0	-60.0	
Dividend & Dividend tax	0.0	-3.3	-3.3	-3.3	
Less: Interest Paid	-26.3	-23.6	-18.2	-8.0	
Other	0.0	0.0	0.0	0.0	
<b>CF from Financing activities</b>	-47.4	-90.5	-51.5	-71.3	
Net Cash Flow	0.1	17.5	-3.3	5.7	
Cash and Cash Equivalent a	2.4	2.5	20.0	16.7	
<b>Cash</b>	2.5	20.0	16.7	22.4	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		(₹ crore)			
(Year-end March)	FY 19	FY 20P	FY 21E	FY 22E	
<b>Equity Capital</b>	28.8	28.8	28.8	28.8	
Reserve and Surplus	369.1	418.5	495.9	595.7	
<b>Total Shareholders funds</b>	397.9	447.3	524.7	624.5	
Minority Interest	-0.7	-0.9	-0.9	-0.9	
<b>Total Debt</b>	201.0	137.3	107.3	47.3	
Deferred Tax Liability	23.6	33.6	0.0	0.0	
Long-Term Provisions	1.7	2.8	2.8	2.9	
Other Non Current Liabiliti	2.5	3.7	3.8	3.9	
<b>Source of Funds</b>	626.0	623.8	637.7	677.6	
Gross Block - Fixed Asse	672.3	691.4	711.4	751.4	
Accumulated Depreciatio	98.7	136.7	175.8	217.1	
<b>Net Block</b>	573.7	554.8	535.6	534.3	
Capital WIP	12.4	28.9	15.0	15.0	
<b>Fixed Assets</b>	586.0	583.7	550.6	549.3	
Investments	0.0	0.0	40.0	70.0	
Other non-Current Asset:	27.0	31.4	32.0	32.7	
Inventory	77.8	106.3	99.7	113.7	
Debtors	49.1	33.8	45.3	51.7	
Loans and Advances	9.1	8.8	8.9	8.9	
Other Current Assets	16.2	15.2	15.5	15.8	
Cash	2.5	20.0	16.7	22.4	
<b>Total Current Assets</b>	154.6	184.2	186.1	212.5	
Creditors	94.7	108.5	102.7	117.1	
Provisions	1.7	0.7	0.7	0.7	
Other Current Liabilities	45.4	66.3	67.7	69.0	
<b>Total Current Liabilities</b>	141.7	175.5	171.1	186.9	
Net Current Assets	12.9	8.6	15.0	25.6	
<b>Application of Funds</b>	625.9	623.7	637.7	677.6	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY 19	FY 20E	FY 21E	FY 22E	
<b>Per share data (₹)</b>					
Reported EPS	8.5	17.3	28.0	35.8	
Cash EPS	8.5	16.2	26.9	34.6	
BV per share	138.2	155.3	182.2	216.8	
Cash per Share	0.9	6.9	5.8	7.8	
Dividend per share	0.0	1.2	1.2	1.2	
<b>Operating Ratios (%)</b>					
Gross Profit Margins	39.2	38.6	39.5	40.5	
EBITDA margins	9.0	10.7	14.3	14.2	
PAT Margins	2.5	4.3	7.3	8.2	
Inventory days	28.8	33.2	32.9	32.9	
Debtor days	18.2	10.6	15.0	15.0	
Creditor days	35.0	33.9	33.9	33.9	
Asset Turnover	1.5	1.7	1.6	1.7	
<b>Return Ratios (%)</b>					
RoE	6.1	11.2	15.4	16.5	
RoCE	9.5	14.5	19.7	21.5	
RoIC	8.5	15.1	19.6	21.5	
<b>Valuation Ratios (x)</b>					
P/E	21.1	10.3	6.4	5.0	
EV / EBITDA	8.1	5.0	3.8	3.0	
EV / Net Sales	0.7	0.5	0.5	0.4	
Market Cap / Sales	0.5	0.4	0.5	0.4	
Price to Book Value	1.3	1.1	1.0	0.8	
<b>Solvency Ratios</b>					
Debt / EBITDA	2.3	1.1	0.7	0.3	
Debt / Equity	0.5	0.3	0.2	0.1	
Current Ratio	1.1	0.9	0.9	1.0	
<b>Quick Ratio</b>	0.5	0.3	0.4	0.4	

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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