

Profitability lifts with all-time high margins...

About the stock: Globus Spirits (GSL) is the largest grain based ENA manufacturer in India with a capacity of 160 million litre. The company is also a supplier of Indian made Indian liquor (IMIL) and premium IMFL in India.

- IMIL segment comprised ~42% of consolidated revenues, with the rest contributed by bulk alcohol (45%) and others (bottling and by-products)
- Total 80% of IMIL sales occurs in Rajasthan (32-33% market share)

Q1FY22 Results: GSL reported margin expansion driven by IMIL and ethanol sales.

- Net revenues grew 4% QoQ (66% YoY) to ₹ 371 crore
- EBITDA grew 12% QoQ (150% YoY) to ₹ 98 crore with margins at 26.5% (vs. 24.7% in Q4FY21)
- Subsequently, PAT grew 10% QoQ (2x YoY) to ₹ 56 crore

What should investors do? Globus Spirits has been a beneficiary of the changing dynamics in the liquor space (inflation in ENA prices and growth in IMIL space due to better quality, higher strength and attractive product positioning). The management has been at the forefront to capture the opportunities.

- We remain positive on the stock and maintain our BUY recommendation

Target Price & Valuation: We value the stock at ₹ 1050 i.e. 11x P/E on FY23E EPS

Key triggers for future price performance: GSL has a product range across these two ends of liquor segment (hour glass shaped consumption), including manufacturing extra neutral alcohol (ENA) to contract bottling of Indian made foreign liquor (IMFL), to marketing, selling IMIL, several by-products.

- Capturing premium price points in IMIL space via higher strength liquor
- Government expedited 20% blending target to 2025, leading to higher diversion of ENA towards ethanol
- Nearing net-debt free status with return ratios reaching 25%+ levels

Alternate Stock Idea: Apart from GSL, we remain positive on United Spirits (USL)

- USL is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 770

Key Financial Summary

₹ crore	FY19	FY20	FY21E	5 Year CAGR (FY16-21P)	FY22E	FY23E	2 Year CAGR
Net Sales	985.9	1,168.8	1,230.8	11.0%	1,433.3	1,762.7	19.7%
EBITDA	88.3	124.7	254.7	22.7%	336.8	414.2	27.5%
PAT	24.3	49.9	140.8	32.5%	213.6	272.2	39.0%
P/E (x)	100.6	49.0	17.4		11.5	9.0	
M.Cap/Sales (x)	2.5	2.1	2.0		1.7	1.4	
RoCE (%)	9.5	14.5	28.0		31.8	31.0	
RoE (%)	6.1	11.2	24.1		26.9	25.6	

Source: Company, ICICI Direct Research



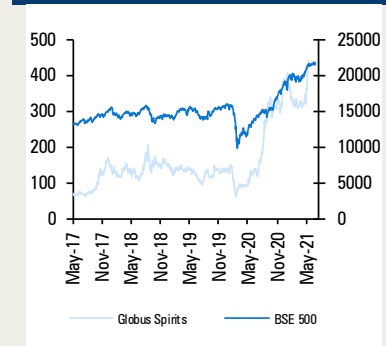
Particulars

Market Capitalisation (₹ cr)	2,246.3
Total Debt (₹ cr) - FY21	134.0
Cash (₹ cr) - FY21	58.1
EV (₹ cr) - FY22	2,322.2
52 Week High / Low (₹)	814/135
Equity Capital (₹ cr)	28.8
Face Value (₹)	10.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	55.9	55.9	55.9	56.0
Others	44.1	44.1	44.1	44.0

Price Chart



Recent event & key risks

- Commissioning of 140 KLPD WB plant
- **Key Risk:** (i) Hardening of raw material prices (ii) Extension of state lockdowns

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Key takeaways

Q1FY22 Results: Firing on all cylinders

- Share of IMIL business has grown from 35% in Q1FY21 to 42% in Q1FY22
- Realisation of IMIL improved to ₹ 463/case in Q1FY22 from ₹ 404 in Q1FY21
- Premium segment reported revenue of ₹ 1 crore in Q1FY22

Q1FY22 Earnings Conference Call highlights

- A 140 KLPD plant in West Bengal is expected to be commissioned in September, 2021. Hence, total capacity of the plant will go up to 250 KLPD
- A 140 KLPD capacity is expected to be operational in Jharkhand in FY23 (construction has started)
- Planned capacity of 140 KLPD under evaluation between Bihar and another location
- The company continues to gain market share in IMIL segment in Rajasthan
- The cost of debt has reduced to 7.8% and the management expects a further reduction in interest cost
- Working capital continues to remain favourable for the company (some increment seen due to higher receivables due to higher IMIL, ethanol sales)
- Better IMIL realisation as customers are straddling to better price points

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY20	FY21E	FY22E	FY23E
Total Operating Income	1,168.8	1,230.8	1,433.3	1,762.7
Growth (%)	18.6	5.3	16.5	23.0
Raw Material Expenses	717.6	653.2	716.7	881.3
Gross Profit	451.2	577.6	716.7	881.3
Gross Profit Margins (%)	38.6	46.9	50.0	50.0
Employee Expenses	34.3	38.4	50.2	61.7
Other Expenditure	292.2	284.5	329.7	405.4
Total Operating Expenditure	1,044.1	976.1	1,096.5	1,348.4
EBITDA	124.7	254.7	336.8	414.2
Growth (%)	41.3	104.2	32.2	23.0
Interest	23.6	18.8	13.3	7.7
Depreciation	38.0	40.7	47.1	53.9
Other Income	3.7	6.6	9.0	11.1
PBT before Exceptional Items	66.9	201.8	285.5	363.7
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	66.9	201.8	285.5	363.7
Total Tax	17.2	61.0	71.9	91.5
PAT before MI	49.7	140.8	213.6	272.2
Minority Interest	-0.2	0.0	0.0	0.0
PAT	49.9	140.8	213.6	272.2
Growth (%)	105.1	182.2	51.7	27.4
EPS (Adjusted)	17.3	48.9	74.2	94.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)/ (₹ crore)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	49.9	140.8	213.6	272.2
Add: Depreciation & Amortization	38.0	40.7	47.1	53.9
Add: Interest Paid	23.6	18.8	13.3	7.7
Net Increase in Current Assets	-7.3	-89.3	0.5	-44.4
Net Increase in Current Liabilities	33.8	28.2	16.5	32.4
Others	-2.6	0.5	0.0	0.0
CF from Operating activities	135.4	139.7	291.0	321.8
(Purchase)/Sale of Fixed Assets	-32.8	-61.7	-116.7	-125.0
Long term Loans & Advances	-4.8	1.4	0.0	0.0
Investments	0.0	0.0	-30.0	-30.0
Others	10.1	-15.9	-1.3	-1.4
CF from Investing activities	-27.4	-76.1	-148.0	-156.4
(inc)/Dec in Loan	-63.7	-3.3	-60.0	-10.0
Dividend & Dividend tax	-3.3	-3.3	-3.3	-3.3
Less: Interest Paid	-23.6	-18.8	-13.3	-7.7
Other	0.0	0.0	0.0	0.0
CF from Financing activities	-90.5	-25.4	-76.6	-21.0
Net Cash Flow	17.5	38.1	66.3	144.4
Cash and Cash Equivalent at the	2.5	20.0	58.1	124.4
Cash	20.0	58.1	124.4	268.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	28.8	28.8	28.8	28.8
Reserve and Surplus	418.5	556.5	766.8	1,035.7
Total Shareholders funds	447.3	585.3	795.6	1,064.5
Minority Interest	-0.9	-0.9	-0.9	-0.9
Total Debt	137.3	134.0	74.0	64.0
Deferred Tax Liability	33.6	59.3	59.3	59.3
Long-Term Provisions	2.8	3.0	3.1	3.1
Other Non Current Liabilities	3.7	7.7	7.8	8.0
Source of Funds	623.8	788.3	938.9	1198.0
Gross Block - Fixed Assets	688.5	730.9	855.9	980.9
Accumulated Depreciation	133.8	174.4	221.5	275.4
Net Block	554.8	556.4	634.4	705.4
Capital WIP	28.9	48.3	40.0	40.0
Fixed Assets	583.7	604.7	674.4	745.4
Investments	0.0	0.0	30.0	60.0
Other non-Current Assets	31.4	77.1	78.6	80.2
Inventory	106.3	102.2	129.6	159.4
Debtors	33.8	87.9	58.9	72.4
Loans and Advances	8.8	8.2	8.2	8.2
Other Current Assets	15.2	53.8	54.9	56.0
Cash	20.0	58.1	124.4	268.9
Total Current Assets	184.2	310.2	376.0	564.9
Creditors	108.5	118.8	133.5	164.2
Provisions	0.7	3.1	3.2	3.3
Other Current Liabilities	66.3	81.8	83.4	85.1
Total Current Liabilities	175.5	203.7	220.1	252.6
Net Current Assets	8.6	106.5	155.8	312.3
Application of Funds	623.7	788.3	938.8	1,197.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	17.3	48.9	74.2	94.5
Cash EPS	16.2	47.8	73.0	93.4
BV per share	155.3	203.2	276.3	369.6
Cash per Share	6.9	20.2	43.2	93.4
Dividend per share	1.2	1.2	1.2	1.2
Operating Ratios (%)				
Gross Profit Margins	38.6	46.9	50.0	50.0
EBITDA margins	10.7	20.7	23.5	23.5
PAT Margins	4.3	11.4	14.9	15.4
Inventory days	33.2	30.3	33.0	33.0
Debtor days	10.6	26.1	15.0	15.0
Creditor days	33.9	35.2	34.0	34.0
Asset Turnover	1.7	1.7	1.7	1.8
Return Ratios (%)				
RoE	11.2	24.1	26.9	25.6
RoCE	14.5	28.0	31.8	31.0
RoIC	15.1	31.4	37.4	40.5
Valuation Ratios (x)				
P/E	49.0	17.4	11.5	9.0
EV / EBITDA	20.6	9.9	7.1	5.4
EV / Net Sales	2.2	2.1	1.7	1.3
Market Cap / Sales	2.1	2.0	1.7	1.4
Price to Book Value	5.5	4.2	3.1	2.3
Solvency Ratios				
Debt / EBITDA	1.1	0.5	0.2	0.2
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	0.9	1.2	1.1	1.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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