

Q1FY23 Result Update Globus Spirits Ltd

Strong volume growth; margin contraction led to miss on earnings

- Globus Spirits (GBSL) posted mixed Q1FY23 results, as robust volume growth across consumer and manufacturing segments led to strong top-line growth; however, higher power and fuel cost as well as packaging cost-led to margin contraction and a miss on bottom line.
- Consolidated net revenue grew +34% YoY and +3% QoQ to INR495cr. EBITDA margin narrowed -1,258 bps YoY and -378 bps QoQ to 14% as a result EBITDA was down -29% YoY and -18% QoQ to INR70cr. Consolidated PAT came below -33% YoY and -23% QoQ to INR37cr.
- Under a cost-savings initiative, GBSL shifted its rice procurement from open market to FCI. This enabled the company to post stable gross margin during the quarter.
- We may see EBITDA margin start recovering from 2HFY23 once this inflationary environment eases. With robust volume growth (reported during this quarter) is expected to continue over the medium term and further improvement in realization (based on expected ethanol price hike in December), we anticipate GBSL to report 37% CAGR growth in earnings over FY23–25e. We maintain our 'Tactical BUY' with a revised TP of INR1,350/share.

Strong top line but short-term margin squeeze

Globus Spirits top line was in line with expectation as consumer and manufacturing segments delivered strong performance. Consumer business grew 25% YoY and 16% QoQ, driven by 16% YoY increase in consumer cases (6% QoQ) and increase in realization by +4%YoY and 7% QoQ, underpinned by a recent price hike in Rajasthan. Manufacturing segment reported record production of 5.34cr litres, backed by 92% capacity utilisation and higher realization of INR 57/litre. Notably, rice procured from FCI (40% of rice requirement) is, providing a cushion to gross margins for ethanol production. EBITDA margins came at 14%, down ~1,250 bps YoY and -378 bps QoQ due to higher prices of coal (+30% QoQ), packaging material (+14% QoQ) and aluminium cap (+12% QoQ).

Capacity expansions to drive medium-term growth

The company has aggressive growth plans in place and expects to double its ethanol/ENA capacity from 665 KLPD to 1,344 KLPD by FY25. Four expansions totalling 280 KLPD is expected to be commissioned in FY23, implying ~42% increase in capacity by the end of the current fiscal year. The four expansions are: (i) 140 KLPD greenfield expansion at Jharkhand by August 2022, (ii) 60 KLPD additional capacity each at West Bengal and Jharkhand by 4QFY23 and (iii) 19 KLPD at Bihar by 4QFY23. Moreover, there are two greenfield expansions of 200 KLPD each at Orissa (land acquired) and Uttar Pradesh (land acquisition underway), which are progressing well. The expanded capacity also opens up consumer market of 100 mn cases per annum.

2HFY23 poised for strong growth, LT outlook positive

Globus Spirits reported lower-than-expected profitability seeing a steep margin decline due to high RM, fuel and packaging material cost. We expect margins to improve starting 2HFY23, underpinned by (i) lower RM prices, (ii) moderating fuel cost, (iii) anticipated ethanol price hike in December and (iv) impact of cost-saving initiatives translating into annual savings of INR20–30cr. We remain confident on its business model and expect earnings to grow from the upcoming capacities and an increase in value as well as consumer volumes in the basket of its consumer offerings.

Earnings change and target price

We reduced FY23 EPS by 13% due to increased cost of production and expectation of soft 1HFY23 margins. We lifted our EPS estimates for FY24–25 slightly by 0–2% on account of higher consumer volumes and better utilisation from manufacturing business. We revise our 12-month target price to INR1,350 per share. At our revised TP, GBSL trades at 12.5x FY24 PE and 8.1x FY24e EV/EBITDA and at a significant discount (>50%) to industry peers (IMFL).

Year to March	Q1FY23	Q1FY22	% change	Q4FY22	% change	FY22	FY23E	FY24E	FY25E
Net Revenues (INR Cr)	497	372	33.8	481	3.3	1,586	2,224	2,625	3,297
% Growth (yoy)						28	40	18	26
EBITDA (INR Cr)	70	99	-29.1	86	-18.4	335	374	499	658
% Growth (yoy)						28	12	33	32
Net profit (INR Cr)	37	56	-33.1	49	-23.3	187	226	312	423
Diluted EPS (INR)	13	19	-33.1	17	-23.3	65	78	108	147
Diluted P/E (x)						14	12	8	6
EV/EBITDA (x)						8	7	6	4
ROACE (%)						34	29	33	36

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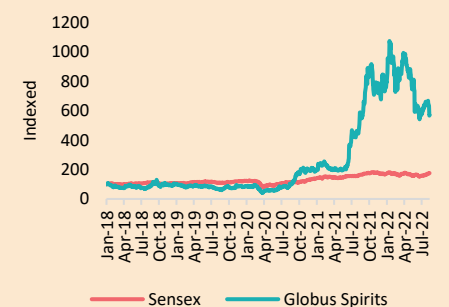
Rating: BUY

Target Price INR: 1,350

Upside: 48%

Date: August 12, 2022

Bloomberg:	GBSL:IN
52-week range (INR):	774 / 1,760
Share in issue (crore):	2.9
M-cap (INR cr):	2,635
Promoter holding (%)	51.01



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Key management commentary highlights

Consumer Segment

- With improving product mix towards value plus and premium segments, management expects current realization to remain firm.
- Management aims to achieve 20% revenue contribution from premium liquor sales as a long term target, currently it is ~2%.
- **Rajsthan:** Market share is ~33%. Additional whiskey brand 'Global Dream' launched towards end of March is gradually picking up.
- **Haryana:** Market share is ~8%. **West Bengal:** Market share is ~2%. Launched country club in the value plus segment in end-April 2022.
- Due to regulatory challenges, there may not be significant growth in tetra pack volumes over short term.
- Signed an agreement with Bacardi India to bottle rum under the brand Bacardi Black and other brands in West Bengal.

Manufacturing

- Utilization during the quarter stood at 92% of expanded 665 KLPD capacity. Realization during the quarter stood at INR57.1 per Ltr. higher +11% YoY and +3% QoQ.
- ENA prices have increased by around 5-7% sequentially in Q2FY23.
- Management expects decent increase in Ethanol prices in October/November during next round of price hike by the government. Thus, margins may bottom-out in coming quarter and it would follow upward trajectory from 2HFY23.
- There will not be much impact of drop in rice yield (if any). Because procurement of rice is hedged in two ways (i) 40% of raw material purchase would be from FCI, which has sufficient rice for ethanol production (ii) Globus is hedged as it can also procure other grains, primarily maize for ethanol production.

Others

- Overall capacity utilization stood at 92% during the quarter, recording highest ever (5.34 cr ltr) alcohol production by the company.
- Out of total other expenses during the quarter, around INR60cr would constitute power and fuel costs while INR10-15cr would be packaging costs.
- On a sustainable basis, company EBITDA margins in the range of 18-20% would be maintained.
- Power costs in Q1FY23 were INR2.5-2.7 per gross calorific value which is increased to INR3 per gross calorific value in Q2FY23.
- The prices of animal feed have fairly stable post Q3FY22 and going forward also management does not expect major change in the prices.

Capex

- Jharkhand 140 KLPD facility is ready for operations and the production will commence in August 2022. This will increase total installed alcohol production capacity from 23 to 28 Cr Ltr per annum.
- Next round of brownfield expansion in West Bengal and Jharkhand by 2 Cr Ltr per annum would be commissioned in Q4FY23 beginning.
- Having completed land acquisition in Uttar Pradesh and Odisha, commencement of construction is expected later in FY23.
- With an overall investment outlay of INR600cr, which would increase total capacity to 42 Cr Ltr from 18 Cr Ltr in FY21, underlines the lowest per KL cost in the industry.
- This expansion plan would increase accessibility of consumer segment to nearly 100 mn cases per annum.
- Thus, the existing capacity of 665 KLPD will increase to 925 KLPD by end-FY23.

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Q1FY23 Result Highlights

Particulars	Q1FY23	Q1FY22	% change	Q4FY22	% change	FY22	FY23E	FY24E	FY25E
Gross Revenue	683	551	24	654	4	2344	2997	3473	4221
Excise Duty	188	180	4	175	7	765	780	855	930
Net Revenue	495	371	34	479	3	1579	2217	2619	3291
Other Income	2	1	55	2	-5	7	7	7	7
Total Income	497	372	34	481	3	1586	2224	2625	3297
COGS	292	184	59	277	5	838	1296	1485	1832
Gross Profit	205	188	9	204	1	747	928	1141	1466
Employee Expenses	14	15	-2	14	-1	50	63	81	110
Other Expenses	121	74	63	103	17	362	490	560	698
Total Operating Expenses	427	272	57	395	8	1251	1849	2126	2640
EBITDA	70	99	-29	86	-18	335	374	499	658
Depreciation and amortization	13	10	21	11	11	43	54	60	68
EBIT	58	89	-35	75	-23	293	320	440	590
Interest expenses	2	4	-44	3	-20	11	10	8	6
Profit before tax	56	85	-35	72	-23	281	310	431	585
Provision for tax	18	29	-37	24	-22	94	84	119	161
Profit after tax	37	56	-33	49	-23	187	226	312	423
Diluted EPS (INR)	13	19	-33	17	-23	65	78	108	147

Revised Estimates

	FY23E			FY24E			FY25E		
	Previous	Revised	%Change	Previous	Revised	%Change	Previous	Revised	%Change
Sales	2,139	2,224	4%	2,452	2,625	7%	3,066	3,297	8%
EBITDA	420	374	-11%	493	499	1%	638	658	3%
EBITDA margin	19.6%	16.8%	-281 bps	20.1%	19.0%	-108 bps	20.8%	20.0%	-85 bps
PAT	260	226	-13%	312	312	0%	416	423	2%
EPS	90	78	-13%	108	108	0%	145	147	2%

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Financial Charts

Exhibit 1: Net Sales (INR Cr)

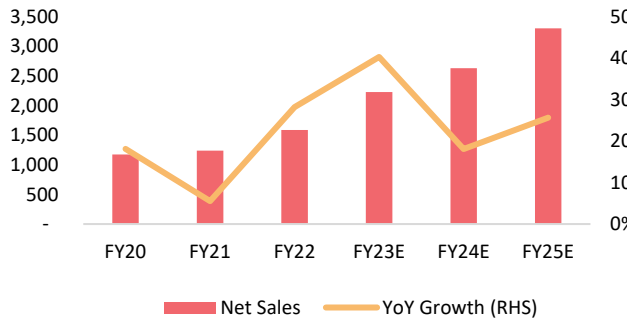


Exhibit 2: EBITDA (INR Cr)

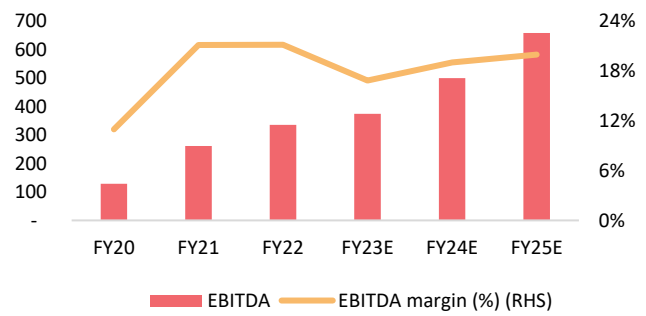


Exhibit 3: PAT (INR Cr)

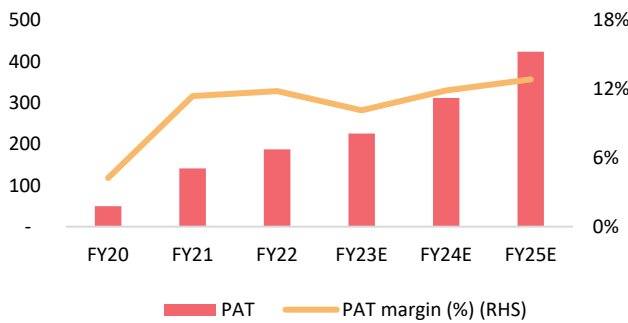


Exhibit 4: Consumer segment volumes and realizations

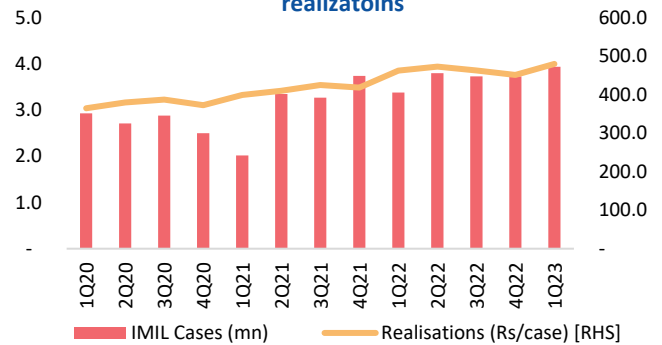


Exhibit 5: Consumer segment snapshot

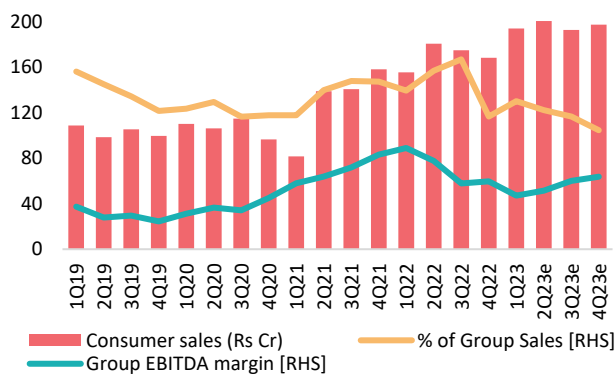
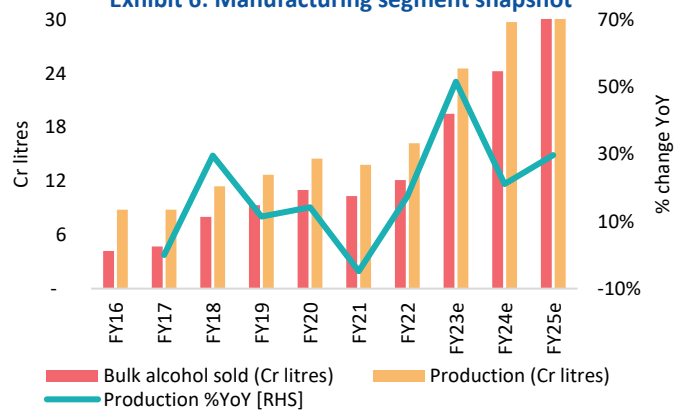


Exhibit 6: Manufacturing segment snapshot



Source: Edelweiss Wealth Research

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Previous outlook

Q4FY22: The result was in line with our expectation, and we expect inflationary pressure to lessen in coming quarter with price hikes in Rajasthan and company procuring FCI rice for ethanol manufacturing. We remain positive on GBSL, underpinned by long-term drivers such as (i) the company being a key beneficiary of the ethanol blending programme where we expect grain-based ethanol to be a focus area, (ii) the company's plans to introduce consumer brands across new markets and (iii) increasing share of high-margin value plus products within the total volumes. We increase our FY24 EPS estimates by 9% as we account for brownfield capacity expansion of 60KLPD each at the Jharkhand and West Bengal sites, partially offset by lower margin expectations. We keep the FY23 EPS largely unchanged and revise our target price to INR1,400 per share. At our revised TP, GBSL trades at 13x FY24 PE and 8.5x FY24e EV/EBITDA.

Q3FY22: We remain positive on GBSL based on (i) capacity additions and improved capacity utilisation from Q4FY22; (ii) increasing share of Value Plus portfolio in total volumes, underpinned by planned new product launches; (iii) steady margins in Manufacturing segment with gradual shift to FCI for raw material; and (iv) price hike in Rajasthan likely to be margin-accretive. We lower our FY22e EPS by 5% but raise FY23-24e EPS by 1–4%. We reaffirm our 'Tactical BUY' call and target price of INR1,500/share. At our revised TP, GBSL trades at 15x FY24 PE and 10x FY24e EV/EBITDA.



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Financials

Income statement (Consolidated)

Year to March (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E
Income from operations	1,237	1,586	2,224	2,625	3,297
Total operating expenses	976	1,251	1,849	2,126	2,640
EBITDA	261	335	374	499	658
Depreciation and amortisation	41	43	54	60	68
EBIT	221	293	321	440	590
Interest expenses	19	11	10	8	6
Profit before tax	202	281	310	431	585
Provision for tax	61	94	84	119	161
Extraordinary items	0	0	0	0	0
Adjusted net profit	141	187	226	312	423
Diluted shares (Cr)	3	3	3	3	3
EPS (INR) fully diluted	49	65	78	108	147
Dividend per share	2	3	4	5	6
Dividend payout (%)	4	5	5	5	4

Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Operating expenses	79	79	83	81	80
Depreciation	3	3	2	2	2
Interest expenditure	2	1	0	0	0
EBITDA margins	21	21	17	19	20
Net profit margins	11	12	10	12	13

Growth metrics (%)

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenues	6	28	40	18	26
EBITDA	103	28	12	33	32
PBT	202	39	10	39	36
Net profit	182	33	20	38	36
EPS	182	33	20	38	36

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Balance sheet (INR Cr)

As on 31st March	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	29	29	29	29	29
Reserves & surplus	557	744	960	1,261	1,670
Shareholders funds	585	772	989	1,289	1,698
Total Debt	187	180	187	142	97
Other Liabilities	5	6	6	6	6
Deferred Tax Liabilities	52	89	96	86	72
Sources of funds	829	1,047	1,277	1,523	1,872
Gross block	755	889	1,100	1,190	1,280
Depreciation	177	219	273	333	401
Net block	579	670	827	858	880
Capital work in progress	48	98	98	98	98
Total fixed assets	627	768	925	956	978
Inventories	103	108	195	230	289
Sundry debtors	88	118	191	226	284
Cash and equivalents	58	76	53	235	507
Loans and advances	56	84	84	84	84
Total current assets	305	387	524	775	1,164
Sundry creditors and others	153	180	244	281	342
Provisions	11	9	9	9	9
Total CL & provisions	164	189	253	290	351
Net current assets	141	198	270	485	813
Misc expenditure	61	82	82	82	82
Uses of funds	829	1,047	1,277	1,523	1,872
Book value per share (INR)	203	269	344	448	590

Cash flow statement

Year to March	FY21	FY22	FY23E	FY24E	FY25E
EBIT	221	293	321	440	590
Depreciation	41	43	54	60	68
Tax	61	94	84	119	161
Chg in WC	103	57	72	215	328
Others	51	35	(16)	172	258
CFO	148	219	201	337	427

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Ratios

Year to March	FY21	FY22	FY23E	FY24E	FY25E
ROAE (%)	27	28	26	27	28
ROACE (%)	32	34	29	33	36
Debtors (days)	26	30	31	31	31
Current ratio	1.3	1.5	1.6	2.2	2.8
Debt/Equity	0.3	0.2	0.2	0.1	0.1
Inventory (days)	40	40	40	41	42
Payable (days)	47	44	41	43	43
Cash conversion cycle (days)	19	25	30	30	30
Debt/EBITDA	0.7	0.5	0.5	0.3	0.1
Adjusted debt/Equity	0.3	0.2	0.2	0.1	0.1

Valuation parameters

Year to March	FY21	FY22	FY23E	FY24E	FY25E
Diluted EPS (INR)	48.9	65.1	78.4	108.3	147.1
Y-o-Y growth (%)	182	33	20	38	36
Diluted P/E (x)	6.5	14.1	11.7	8.4	6.2
Price/BV(x)	1.6	3.4	3.4	2.7	2.0
EV/Sales (x)	0.8	2.2	1.8	1.2	1.1
EV/EBITDA (x)	4.0	8.3	7.4	5.6	4.2
Diluted shares O/S	2.9	2.9	2.9	2.9	2.9
Basic EPS	48.9	65.1	78.4	108.3	147.1
Basic PE (x)	6.5	14.1	11.7	8.4	6.2

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The Team

Analysts	Sector
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Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Dharmesh Kant	Practice Head - Trading
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Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Anshul Verdia	Power , Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Mohit Gupta	Auto, Auto-Anc.
Tushar Chaudari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader

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Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries .Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydu Wellness Ltd
40	Tarsons Products Ltd
41	MTAR Technologies Ltd.

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spirits Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd

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