

India

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price:	Rs739
Target price:	Rs3,192
Previous target:	Rs3,560
Up/downside:	331.9%
InCred Research / Consensus:	331.8%
Reuters:	GLOS.NS
Bloomberg:	GBSL IN
Market cap:	US\$261m
	Rs21,294m
Average daily turnover:	US\$1.7m
	Rs140.2m
Current shares o/s:	28.8m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Adjusted our PAT estimates by (34.9)% / (10.4)% for FY23F/FY24F.
- Cut target price to Rs3,192 from Rs3,560.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.7)	(17.3)	(39.3)
Relative (%)	(14.3)	(18.9)	(41.1)

Major shareholders	% held
Promoter & Promoter Group	51.0
MIT	3.8

Analyst(s)



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Globus Spirits Ltd

2Q weak; govt's ethanol policy disappoints

- Globus Spirits reported a weak set of numbers for 2QFY23, in line with our estimate, because of higher power and raw material costs.
- However, we expect its performance in the coming quarters to be better because the focus may shift towards extra neutral alcohol (ENA) from ethanol.
- Retain ADD rating with a lower target price of Rs3,192 (Rs3,560 earlier).

Raw material and fuel cost continues to hurt

Globus Spirits or GSL has started taking the rice supplied by the FCI (Food Corporation of India), which is available at Rs20/kg, as the market rate of broken rice has crossed the Rs20/kg mark. Ethanol made from this rice fetches a higher realization. Fuel cost also continues to remain abnormally high, thereby hurting EBITDA margin. The prices of controlled commodities used to make Indian Made Indian Liquor or IMIL and Indian Made Foreign Liquor or IMFL, in our view, should start seeing price hikes going ahead. Market-driven commodities, such as ENA, are already seeing their prices moving upwards. As the company has an option to shift its production towards ENA, it is likely that most of the production capacity will be directed towards making ENA.

Government's ethanol policy disappoints

The government's ethanol policy for ethanol year or EY23 has been a major disappointment with the rates barely increased for all the routes of making ethanol, especially the grain route, from the early six-month relief scheme of EY22. We see a slowdown in investments in the standalone grain distillation segment for the rest of EY23F if ethanol rates remain at current levels. However, we feel GSL may sail through, as it can shift maximum capacity towards production of ENA whose prices are currently ruling firm at ~Rs62/L. The company's distillation capacity in Bihar can also produce ENA for the neighbouring state of West Bengal, given the fact that liquor consumption is prohibited in Bihar.

Retain ADD rating with lower target price of Rs3,192

We have adjusted our PAT estimates for GSL by (34.9)% / (10.4)% for FY23F/FY24F, respectively, considering its 2QFY23 performance and the postponement of its Odisha 200ktpd and Uttar Pradesh 200ktpd expansion projects from FY23F & FY24F to FY24F & FY25F, respectively. We retain ADD rating on GSL with a lower target price of Rs3,192, at 25x FY24F EPS. Downside risks: 1) Broken rice is mainly used to produce ENA/ethanol and any rise in its price will directly impact gross profit. 2) Also, final product prices are decided by state/central governments and/or oil marketing companies and hence, profitability depends on the prices fixed by them. 3) There is already a ban on sale and consumption of alcohol in Gujarat, Bihar, Nagaland, and Lakshadweep. If the governments in states that GSL operates in decide to ban or restrict the use of alcohol, it will have an adverse impact. 4) Power is a vital component of product economics, generated mainly from coal, and thus any adverse movement in coal prices will hit profitability.

Financial Summary	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	11,688	12,308	15,792	22,052	31,279
Operating EBITDA (Rsm)	1,247	2,552	3,286	2,766	5,550
Net Profit (Rsm)	499	1,433	1,873	1,577	3,677
Core EPS (Rs)	17.3	49.8	65.0	54.8	127.7
Core EPS Growth	105.0%	187.2%	30.7%	(15.8%)	133.2%
FD Core P/E (x)	42.67	14.86	11.37	13.50	5.79
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.14%	0.27%	0.53%	0.44%	1.04%
EV/EBITDA (x)	18.00	8.64	6.78	7.90	3.91
P/FCFE (x)	49.34	36.46	25.66	38.24	(137.08)
Net Gearing	26.3%	13.0%	12.7%	6.0%	3.1%
P/BV (x)	4.76	3.64	2.76	2.31	1.68
ROE	11.8%	27.8%	27.6%	18.6%	33.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	2QFY23	1QFY23	%QoQ	2QFY22	%YoY
Revenue From Operations	4,803	4,954	-3.1%	3,822	25.7%
Cost of Goods Sold	2,829	2,921	-3.1%	1,972	43.4%
Employee Expenses	137	142	-3.1%	107	27.9%
Other Expenses	1,388	1,206	15.1%	865	60.5%
EBITDA	449	686	-34.5%	878	-48.8%
Depreciation	129	125	3.5%	104	24.0%
EBIT	320	561	-43.0%	774	-58.6%
Other Income	21	17	22.9%	16	34.0%
Interest Expenses	25	22	14.0%	24	5.1%
Profit Before Tax	316	556	-43.2%	765	-58.7%
Tax Expenses	94	183	-48.5%	240	-60.7%
PAT	221	373	-40.6%	525	-57.8%
Key Ratios	2QFY23	1QFY23	%QoQ	2QFY22	%YoY
EBITDA Margin	9.4%	13.8%	-449bp	23.0%	-1361bp
EBIT Margin	6.7%	11.3%	-466bp	20.2%	-1358bp
PBT Margin	6.6%	11.2%	-465bp	20.0%	-1345bp
PAT Margin	4.6%	7.5%	-291bp	13.7%	-913bp
Tax Rate	29.9%	33.0%	-308bp	31.4%	-149bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

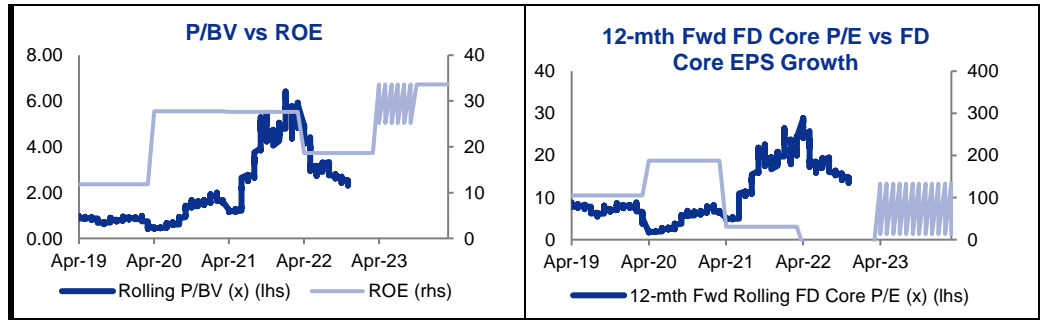
Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	22,184	31,018	22,052	31,279	-0.6%	0.8%
EBITDA	4,001	6,124	2,766	5,550	-30.9%	-9.4%
EBITDA Margin (%)	18.0%	19.7%	12.5%	17.7%	-549bp	-200bp
PAT	2,422	4,101	1,577	3,677	-34.9%	-10.4%
EPS (Rs)	84	142	55	128	-34.9%	-10.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	11,688	12,308	15,792	22,052	31,279
Gross Profit	4,512	5,776	7,408	9,234	14,076
Operating EBITDA	1,247	2,552	3,286	2,766	5,550
Depreciation And Amortisation	(380)	(407)	(426)	(516)	(533)
Operating EBIT	867	2,145	2,860	2,250	5,017
Financial Income/(Expense)	(198)	(123)	(48)	(50)	(48)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	669	2,023	2,812	2,200	4,968
Exceptional Items					
Pre-tax Profit	669	2,023	2,812	2,200	4,968
Taxation	(172)	(590)	(940)	(623)	(1,292)
Exceptional Income - post-tax					
Profit After Tax	497	1,433	1,873	1,577	3,677
Minority Interests	2				
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	499	1,433	1,873	1,577	3,677
Recurring Net Profit	499	1,433	1,873	1,577	3,677
Fully Diluted Recurring Net Profit	499	1,433	1,873	1,577	3,677

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	1,247	2,552	3,286	2,766	5,550
Cash Flow from Invt. & Assoc.					
Change In Working Capital	190	(966)	(1,106)	625	(722)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	67	491	1,888		
Other Operating Cashflow					
Net Interest (Paid)/Received	23	23	66	39	26
Tax Paid	(172)	(590)	(940)	(623)	(1,292)
Cashflow From Operations	1,355	1,509	3,194	2,807	3,562
Capex	(390)	(892)	(2,242)	(2,000)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1			(100)	(600)
Cash Flow From Investing	(390)	(892)	(2,242)	(2,100)	(3,100)
Debt Raised/(repaid)	(534)	(33)	(122)	(150)	(617)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		58	112	95	221
Preferred Dividends					
Other Financing Cashflow	(804)	(290)	(124)	(339)	(681)
Cash Flow From Financing	(1,338)	(266)	(134)	(394)	(1,077)
Total Cash Generated	(372)	351	818	312	(616)
Free Cashflow To Equity	432	584	830	557	(155)
Free Cashflow To Firm	966	617	952	707	462

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	200	581	761	1,034	584
Total Debtors	338	879	1,180	1,510	2,142
Inventories	1,063	1,021	1,085	1,812	2,571
Total Other Current Assets	163	556	844	221	313
Total Current Assets	1,764	3,038	3,871	4,578	5,611
Fixed Assets	5,979	6,264	7,671	9,155	11,122
Total Investments				100	700
Intangible Assets	6	4	6	6	6
Total Other Non-Current Assets	245	614	818	331	469
Total Non-current Assets	6,229	6,882	8,495	9,592	12,297
Short-term Debt	45	273	650	650	650
Current Portion of Long-Term Debt					
Total Creditors	1,755	2,037	1,847	2,393	3,252
Other Current Liabilities					
Total Current Liabilities	1,800	2,309	2,498	3,043	3,903
Total Long-term Debt	1,328	1,067	1,089	939	322
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	65	107	100		
Total Non-current Liabilities	1,393	1,174	1,190	939	322
Total Provisions	336	592	955	981	1,021
Total Liabilities	3,529	4,076	4,642	4,964	5,246
Shareholders Equity	4,473	5,853	7,723	9,206	12,662
Minority Interests	(9)	(9)			
Total Equity	4,464	5,844	7,723	9,206	12,662

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	18.6%	5.3%	28.3%	39.6%	41.8%
Operating EBITDA Growth	41.4%	104.6%	28.8%	(15.8%)	100.7%
Operating EBITDA Margin	10.7%	20.7%	20.8%	12.5%	17.7%
Net Cash Per Share (Rs)	(40.72)	(26.34)	(33.98)	(19.29)	(13.49)
BVPS (Rs)	155.32	203.24	268.18	319.65	439.65
Gross Interest Cover	3.68	11.40	25.01	25.35	78.30
Effective Tax Rate	25.7%	29.2%	33.4%	28.3%	26.0%
Net Dividend Payout Ratio	5.8%	4.0%	6.0%	6.0%	6.0%
Accounts Receivables Days	12.94	18.05	23.80	22.27	21.31
Inventory Days	46.81	58.24	45.85	41.25	46.50
Accounts Payables Days	51.67	63.49	58.69	50.73	52.70
ROIC (%)	13.9%	35.5%	39.2%	23.1%	47.1%
ROCE (%)	14.7%	32.0%	32.4%	20.8%	38.4%
Return On Average Assets	8.9%	17.4%	17.2%	12.3%	23.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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