

Higher asset utilisation drives profitability

Globus Spirits reported strong results owing to a significant improvement in margin profile. Though revenues stayed flattish at ₹ 271.5 crore, lower raw material cost led to 720 bps YoY improvement in gross margin to 42%. In spite of higher employee and other expenses, the company registered a 620 bps YoY improvement in EBITDA margin to 13%. Consequently, net profit increased from ₹ 5 crore in Q4FY19 to ₹ 19.4 crore in Q4FY20.

Diversified business model ensures higher capacity utilisation

GSL covers the 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) 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 and 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. The strong revenue growth in FY20 has been owing to improved utilisation in the ENA segment and also supported by higher realisations in the IMIL segment.

FY20 ends on strong note, profitability expected to remain high

Though revenue growth was impacted by lockdown in the second half of March, the company has been able to improve its margins owing to lower other expenses and a control over input costs. Further, we expect the asset utilisation to remain strong (although lower than peak utilisation level in FY20), due to triggers of multiple ethanol usage in liquor, sanitisers & ethanol blending. The company can also benefit from downtrading by IMFL consumers as the excise hike for IMFL has been steeper compared to country liquor enabling better profitability.

Valuation & Outlook

The company is riding on twin engines of higher utilisation and a strong product realisation (ENA, IMIL). Newer brands for IMIL (like "Goldee" launched in West Bengal) and newer opportunities for ethanol utilisation would lead to greater usage of captive ENA. GSL saw a strong improvement in EBITDA margin (~10.7% in FY20 from 8.9% in FY19). We expect margins to be rangebound at 9.5-10.5% for FY21E and FY22E. Also, the company is planning to rationalise high cost debt and debt repayment, which should reduce interest cost and aid in improving profitability. We expect flat growth in revenue, EBITDA for FY20-22E but PAT is expected to grow at 12% CAGR, mainly due to lower interest expense. Subsequently, due to lower stock price, FCF yield is expected to stay elevated. We maintain **BUY** rating on the stock with a target price of ₹ 160, valuing the business at ~7x FY22E EPS.

Key Financial Summary

₹ crore	FY19	FY20P	FY21E	FY22E	CAGR
Net Sales	985.9	1,168.8	1,051.8	1,184.1	6.3%
EBITDA	88.3	124.7	98.9	123.1	11.7%
PAT	24.3	49.9	41.5	62.2	36.8%
P/E (x)	14.0	6.8	8.2	5.5	
M.Cap/Sales (x)	0.3	0.3	0.3	0.3	
RoCE (%)	9.5	14.5	11.4	14.8	
RoE (%)	6.1	11.2	8.5	11.4	

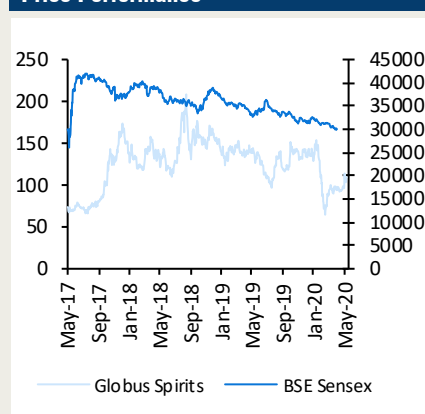
Source: Company, ICICI Direct Research



Particulars

Market Capitalisation (₹cr)	339.8
52 Week High / Low (₹)	161/61
Promoter Holding (%)	55.7
FII Holding (%)	0.8
DII Holding (%)	0.4
Dividend Yield (%)	0.8

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	
Total Operating Income	985.9	1,168.8	1,051.8	1,184.1	
Growth (%)	15.3	18.6	-10.0	12.6	
Raw Material Expenses	599.0	717.6	641.6	722.3	
Gross Profit	386.9	451.2	410.2	461.8	
Gross Profit Margins (%)	39.2	38.6	39.0	39.0	
Employee Expenses	27.7	34.3	37.9	42.6	
Other Expenditure	270.9	292.2	273.5	296.0	
Total Operating Expenditure	897.7	1,044.1	952.9	1,061.0	
EBITDA	88.3	124.7	98.9	123.1	
Growth (%)	29.4	41.3	-20.7	24.6	
Interest	26.3	23.6	11.7	6.9	
Depreciation	36.1	38.0	38.7	40.8	
Other Income	7.1	3.7	6.6	7.5	
PBT before Exceptional It	32.9	66.9	55.1	82.9	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional It	32.9	66.9	55.1	82.9	
Total Tax	9.2	17.2	13.9	20.9	
PAT before MI	23.7	49.7	41.3	62.0	
Minority Interest	-0.6	-0.2	-0.2	-0.2	
PAT	24.3	49.9	41.5	62.2	
Growth (%)	316.8	105.1	-16.9	50.1	
EPS (Adjusted)	8.5	17.3	14.4	21.6	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)/ (₹crore)	FY 19	FY 20E	FY 21E	FY 22E	
Profit/(Loss) after taxation	24.3	49.9	41.5	62.2	
Add: Depreciation & Amortiz	36.1	38.0	38.7	40.8	
Add: Interest Paid	26.3	23.6	11.7	6.9	
Net Increase in Current Ass	-26.7	-7.3	1.7	-17.7	
Net Increase in Current Liab	-3.7	33.8	-9.4	13.7	
Others	-25.8	-2.6	0.0	0.0	
CF from Operating activities	30.6	135.4	84.2	105.9	
(Purchase)/Sale of Fixed As	-16.8	-35.7	-11.1	-40.0	
Long term Loans & Advance	3.2	-4.8	0.0	0.0	
Investments	0.0	0.0	0.0	0.0	
Others	13.7	13.0	-34.1	-0.5	
CF from Investing activities	16.9	-27.4	-45.1	-40.5	
(inc)/Dec in Loan	-21.1	-63.7	-40.0	-40.0	
Dividend & Dividend tax	0.0	-3.3	-3.3	-3.3	
Less: Interest Paid	-26.3	-23.6	-11.7	-6.9	
Other	0.0	0.0	0.0	0.0	
CF from Financing activities	-47.4	-90.5	-55.0	-50.2	
Net Cash Flow	0.1	17.5	-15.9	15.3	
Cash and Cash Equivalent a	2.4	2.5	20.0	4.0	
Cash	2.5	20.0	4.0	19.3	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
(Year-end March)	FY 19	FY 20P	FY 21E	FY 22E	
Equity Capital	28.8	28.8	28.8	28.8	
Reserve and Surplus	369.1	418.5	456.7	515.6	
Total Shareholders funds	397.9	447.3	485.5	544.4	
Minority Interest	-0.7	-0.9	-0.9	-0.9	
Total Debt	201.0	137.3	97.3	57.3	
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 Liabilit	2.5	3.7	3.8	3.9	
Source of Funds	626.0	623.8	588.5	607.5	
Gross Block - Fixed Asse	672.3	691.4	716.4	756.4	
Accumulated Depreciation	98.7	136.7	175.4	216.2	
Net Block	573.7	554.8	541.1	540.2	
Capital WIP	12.4	28.9	15.0	15.0	
Fixed Assets	586.0	583.7	556.1	555.2	
Investments	0.0	0.0	0.0	0.0	
Other non-Current Asset	27.0	31.4	32.0	32.7	
Inventory	77.8	106.3	94.9	106.8	
Debtors	49.1	33.8	43.1	48.6	
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	4.0	19.3	
Total Current Assets	154.6	184.2	166.5	199.4	
Creditors	94.7	108.5	97.8	110.1	
Provisions	1.7	0.7	0.7	0.7	
Other Current Liabilities	45.4	66.3	67.7	69.0	
Total Current Liabilities	141.7	175.5	166.1	179.8	
Net Current Assets	12.9	8.6	0.3	19.6	
Application of Funds	625.9	623.7	588.4	607.5	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
(Year-end March)	FY 19	FY 20E	FY 21E	FY 22E	
Per share data (₹)					
Reported EPS	8.5	17.3	14.4	21.6	
Cash EPS	8.5	16.2	13.2	20.5	
BV per share	138.2	155.3	168.6	189.0	
Cash per Share	0.9	6.9	1.4	6.7	
Dividend per share	0.0	1.2	1.2	1.2	
Operating Ratios (%)					
Gross Profit Margins	39.2	38.6	39.0	39.0	
EBITDA margins	9.0	10.7	9.4	10.4	
PAT Margins	2.5	4.3	3.9	5.3	
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	1.5	1.6	
Return Ratios (%)					
RoE	6.1	11.2	8.5	11.4	
RoCE	9.5	14.5	11.4	14.8	
RoIC	8.5	15.1	10.6	14.4	
Valuation Ratios (x)					
P/E	14.0	6.8	8.2	5.5	
EV / EBITDA	6.1	3.7	4.4	3.1	
EV / Net Sales	0.5	0.4	0.4	0.3	
Market Cap / Sales	0.3	0.3	0.3	0.3	
Price to Book Value	0.9	0.8	0.7	0.6	
Solvency Ratios					
Debt / EBITDA	2.3	1.1	1.0	0.5	
Debt / Equity	0.5	0.3	0.2	0.1	
Current Ratio	1.1	0.9	0.9	1.0	
Quick Ratio	0.5	0.3	0.4	0.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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