

## Capacity expansion on the horizon...

Globus Spirits (GSL) continued to report strong results in Q2FY21. IMIL made a come-back during the quarter (good performance in Rajasthan, Haryana) and posted 33% YoY growth in Q2, followed by 18% growth in bulk revenues (higher volumes). Net revenues during the quarter grew 20% YoY to ₹ 328 crore, whereas the liquor industry in general de-grew 9-10%. EBITDA doubled YoY to ₹ 60 crore mainly due to strong expansion in EBITDA margin (clocked highest ever EBITDA margin of 18.3% vs. 10.7% in Q2FY20, led by higher gross margins, lower fuel, freight & power cost). Subsequently, PAT tripled to ₹ 33 crore.

## High capacity utilisation, mid-teen margin to generate strong CF

Utilisation reached ~95% in Q2 (sharp increase from Q1 levels). While utilisation is expected to remain at peak levels, the company is embarking on a capex programme to increase the overall capacity by ~5 crore litre (increase of ~25%) with an outlay of ₹ 95 crore (as per the management, 40% lower capex than a facility of similar size). The facility would be put up in West Bengal (ENA deficit state) and is expected to be commercialised in Q2FY22. Long term ethanol procurement by Government of India is expected to keep stronger ENA realisation while newer product launches along with downtrading of liquor brands and enforcement of law on illicit liquor trading is expected to help the IMIL segment. The management expects to maintain margins and use cashflows to lower debt in near term.

## Consumption rising across extreme ends of liquor industry

As per management, consumption in liquor industry is evolving into hour glass shape, with customers in tier II, III cities migrating toward better value proposition based IMIL segment, away from lower tier IMFL. Also, premiumisation trend was evident in the quarter. GSL has product range across these two ends of liquor segment, including manufacturing extra neutral alcohol (ENA) to contract bottling of Indian made foreign liquor (IMFL), to marketing, selling IMIL, several by-products. The company's JV Unibev (90% owned, 10% owned by former USL MD Vijay Rekhi) 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. IMIL (~36% of net revenue in FY20) includes Rajasthan as dominant contributor (~75-80% of IMIL revenues, ~30% market share in state).

## Valuation & Outlook

GSL continues to carry out its operations in multiple shifts leading to peak asset utilisation in Q2. The management expects performance to continue in H2FY21. Newer brands for IMIL, opportunities for ethanol utilisation would lead to greater usage of captive ENA. We expect margins to remain at record levels (17-19%) for FY21E, FY22E. Also, it is actively lowering its debt, which should reduce interest cost and aid in improving profitability. Hence, FCF yield is expected to remain elevated. We maintain **BUY** rating on the stock with a target price of ₹ 400, valuing the business at ~7x FY22E EPS.

### Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	CAGR
Net Sales	985.9	1,168.8	1,210.2	1,382.0	11.9%
EBITDA	88.3	124.7	213.0	258.4	43.1%
PAT	24.3	49.9	121.0	160.6	87.6%
P/E (x)	38.5	18.8	7.7	5.8	
M.Cap/Sales (x)	0.9	0.8	0.8	0.7	
RoCE (%)	9.5	14.5	26.5	28.7	
RoE (%)	6.1	11.2	21.4	22.2	

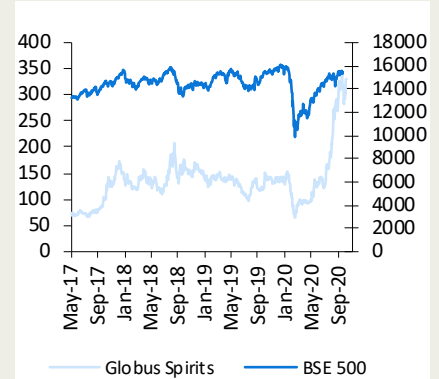
Source: Company, ICICI Direct Research



### Particulars

Market Capitalisation (₹cr)	936.0
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	1,210.2	1,382.0
Growth (%)	15.3	18.6	3.5	14.2
Raw Material Expenses	599.0	717.6	665.6	760.1
Gross Profit	386.9	451.2	544.6	621.9
Gross Profit Margins (%)	39.2	38.6	45.0	45.0
Employee Expenses	27.7	34.3	41.1	45.6
Other Expenditure	270.9	292.2	290.4	317.9
Total Operating Expenditu	897.7	1,044.1	997.2	1,123.6
<b>EBITDA</b>	88.3	124.7	213.0	258.4
Growth (%)	29.4	41.3	70.7	21.3
Interest	26.3	23.6	18.2	8.0
Depreciation	36.1	38.0	40.9	44.7
Other Income	7.1	3.7	7.6	8.7
PBT before Exceptional It	32.9	66.9	161.5	214.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Iten	32.9	66.9	161.5	214.4
Total Tax	9.2	17.2	40.6	54.0
PAT before MI	23.7	49.7	120.8	160.4
Minority Interest	-0.6	-0.2	-0.2	-0.2
<b>PAT</b>	24.3	49.9	121.0	160.6
Growth (%)	316.8	105.1	142.5	32.7
<b>EPS (Adjusted)</b>	8.5	17.3	42.0	55.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)				
(Year-end March)/(₹crore)	FY 19	FY 20	FY 21E	FY 22E
Profit/(Loss) after taxation	24.3	49.9	121.0	160.6
Add: Depreciation & Amortiz	36.1	38.0	40.9	44.7
Add: Interest Paid	26.3	23.6	18.2	8.0
Net Increase in Current Ass	-26.7	-7.3	-19.4	-22.9
Net Increase in Current Liab	-3.7	33.8	5.6	17.4
Others	-25.8	-2.6	0.0	0.0
<b>CF from Operating activities</b>	30.6	135.4	166.4	207.9
(Purchase)/Sale of Fixed As	-16.8	-32.8	-41.1	-70.0
Long term Loans & Advanc	3.2	-4.8	0.0	0.0
Investments	0.0	0.0	-40.0	-30.0
Others	13.7	10.1	-34.1	-0.5
<b>CF from Investing activities</b>	16.9	-27.4	-115.1	-100.5
(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	-0.3	36.0
Cash and Cash Equivalent a	2.4	2.5	20.0	19.7
<b>Cash</b>	2.5	20.0	19.7	55.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet (₹ crore)				
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
Equity Capital	28.8	28.8	28.8	28.8
Reserve and Surplus	369.1	418.5	536.2	693.6
Total Shareholders funds	397.9	447.3	565.0	722.4
Minority Interest	-0.7	-0.9	-0.9	-0.9
Total Debt	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	678.0	775.5
Gross Block - Fixed Asse	672.3	688.5	743.5	813.5
Accumulated Depreciatio	98.7	133.8	174.7	219.4
Net Block	573.7	554.8	568.9	594.1
Capital WIP	12.4	28.9	15.0	15.0
Fixed Assets	586.0	583.7	583.9	609.1
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	109.4	124.9
Debtors	49.1	33.8	49.7	56.8
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	19.7	55.7
Total Current Assets	154.6	184.2	203.2	262.1
Creditors	94.7	108.5	112.7	128.7
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	181.1	198.5
Net Current Assets	12.9	8.6	22.1	63.7
<b>Application of Funds</b>	625.9	623.7	678.0	775.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E
<b>Per share data (₹)</b>				
Reported EPS	8.5	17.3	42.0	55.8
Cash EPS	8.5	16.2	40.9	54.6
BV per share	138.2	155.3	196.2	250.8
Cash per Share	0.9	6.9	6.8	19.3
Dividend per share	0.0	1.2	1.2	1.2
<b>Operating Ratios (%)</b>				
Gross Profit Margins	39.2	38.6	45.0	45.0
EBITDA margins	9.0	10.7	17.6	18.7
PAT Margins	2.5	4.3	10.0	11.6
Inventory days	28.8	33.2	33.0	33.0
Debtor days	18.2	10.6	15.0	15.0
Creditor days	35.0	33.9	34.0	34.0
Asset Turnover	1.5	1.7	1.6	1.7
<b>Return Ratios (%)</b>				
RoE	6.1	11.2	21.4	22.2
RoCE	9.5	14.5	26.5	28.7
RoIC	8.5	15.1	26.7	30.3
<b>Valuation Ratios (x)</b>				
P/E	38.5	18.8	7.7	5.8
EV / EBITDA	12.9	8.4	4.8	3.6
EV / Net Sales	1.2	0.9	0.8	0.7
Market Cap / Sales	0.9	0.8	0.8	0.7
Price to Book Value	2.4	2.1	1.7	1.3
<b>Solvency Ratios</b>				
Debt / EBITDA	2.3	1.1	0.5	0.2
Debt / Equity	0.5	0.3	0.2	0.1
Current Ratio	1.1	0.9	1.0	1.0

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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