

Optimal asset allocation driving profitability...

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 (botting and by-products)
- Total 80% of IMIL sales occurs in Rajasthan (32-33% market share)

Key triggers for future price performance:

- GSL's capacity is expected to more than double from 16 crore litre in FY21 to ~33 crore litre in two years. The management's strategy of **setting up capacities in ENA deficit states** (WB, Bihar, Jharkhand, etc) would enable quicker utilisation at higher realisation, once commercialised
- Post commercialisation of capacities, the management intends to build its consumer business in the states (~50% of FY21 revenues), by providing products at different price points and upgrading its range of offerings to cater to different tastes. **Consumerisation of its ENA capacity** improves the asset turnover as well as realisation of per unit volume, thereby providing positive thrust to return ratios (we expect 30%+ RoCE in FY23E)
- The government expedited 20% blending target to 2025, leading to higher diversion of ENA towards ethanol and creating structural support for ENA prices, by drying up surplus capacities
- **Optimal capital allocation:** GSL has been a beneficiary of changing dynamics in the liquor sector and has seen strong FCF inflow (upwards of 6-7% FCF yield). However, in spite of the record yield, the management has resorted to allocating the incremental capital towards its core strength of building newer ENA capacities and slowly building its consumer portfolio and has not been swayed by ambitions of allocating greater capital to premium portfolio (capex spend limited to just ₹ 15-20 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 in capturing the opportunities

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

Target Price & Valuation: We value the stock at ₹ 1750 i.e. 17x P/E on FY23E EPS



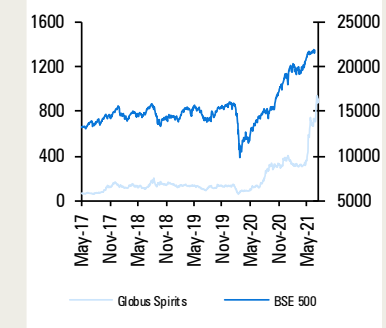
Particulars

Market Capitalisation (₹ cr)	3,815.9
Total Debt (₹ cr) - FY21	134.0
Cash (₹ cr) - FY21	58.1
EV (₹ cr) - FY22	3,891.8
52 Week High / Low (₹)	1354/251
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 West Bengal plant
- **Key Risk:** (i) Hardening of raw material prices, (ii) Extension of state lockdowns

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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	1,881.9	23.7%
EBITDA	88.3	124.7	254.7	22.7%	336.8	442.2	31.8%
PAT	24.3	49.9	140.8	32.5%	213.6	293.7	44.4%
P/E (x)	156.8	76.5	27.1		17.9	13.0	
M.Cap/Sales (x)	3.9	3.3	3.1		2.7	2.0	
RoCE (%)	9.5	14.5	28.0		31.8	32.8	
RoE (%)	6.1	11.2	24.1		26.9	27.0	

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	1,881.9
Growth (%)	18.6	5.3	16.5	31.3
Raw Material Expenses	717.6	653.2	716.7	940.9
Gross Profit	451.2	577.6	716.7	940.9
Gross Profit Margins (%)	38.6	46.9	50.0	50.0
Employee Expenses	34.3	38.4	50.2	65.9
Other Expenditure	292.2	284.5	329.7	432.8
Total Operating Expenditure	1,044.1	976.1	1,096.5	1,439.6
EBITDA	124.7	254.7	336.8	442.2
Growth (%)	41.3	104.2	32.2	31.3
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	11.9
PBT before Exceptional Items	66.9	201.8	285.5	392.5
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	66.9	201.8	285.5	392.5
Total Tax	17.2	61.0	71.9	98.8
PAT before MI	49.7	140.8	213.6	293.7
Minority Interest	-0.2	0.0	0.0	0.0
PAT	49.9	140.8	213.6	293.7
Growth (%)	105.1	182.2	51.7	37.5
EPS (Adjusted)	17.3	48.9	74.2	102.0

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	293.7
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	-60.1
Net Increase in Current Liabilities:	33.8	28.2	16.5	43.5
Others	-2.6	0.5	0.0	0.0
CF from Operating activities	135.4	139.7	291.0	338.7
(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	161.4
Cash and Cash Equivalent at the	2.5	20.0	58.1	124.4
Cash	20.0	58.1	124.4	285.8

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	1,057.2
Total Shareholders funds	447.3	585.3	795.6	1,086.0
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	1219.5
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	170.1
Debtors	33.8	87.9	58.9	77.3
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	285.8
Total Current Assets	184.2	310.2	376.0	597.5
Creditors	108.5	118.8	133.5	175.3
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	263.7
Net Current Assets	8.6	106.5	155.8	333.8
Application of Funds	623.7	788.3	938.8	1,219.5

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	102.0
Cash EPS	16.2	47.8	73.0	100.8
BV per share	155.3	203.2	276.3	377.1
Cash per Share	6.9	20.2	43.2	99.3
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	15.6
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	1.9
Return Ratios (%)				
RoE	11.2	24.1	26.9	27.0
RoCE	14.5	28.0	31.8	32.8
RoIC	15.1	31.4	37.4	43.5
Valuation Ratios (x)				
P/E	76.5	27.1	17.9	13.0
EV / EBITDA	31.5	15.3	11.2	8.1
EV / Net Sales	3.4	3.2	2.6	1.9
Market Cap / Sales	3.3	3.1	2.7	2.0
Price to Book Value	8.5	6.5	4.8	3.5
Solvency Ratios				
Debt / EBITDA	1.1	0.5	0.2	0.1
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	0.9	1.2	1.1	1.2

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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