

Rajasthan policy change, Haryana market share loss impacts mix

About the stock: Globus Spirits (GSL) is the largest grain based ENA manufacturer in India with a capacity of 250 million litre. The company is also a supplier of Indian made Indian liquor (IMIL) and premium IMFL in India.

- Consumer segment comprised ~34% of consolidated revenues, with the rest contributed by bulk alcohol (66%)
- Total 80% of IMIL sales occurs in Rajasthan (32-33% market share)

Q2FY23 Results: Higher power and fuel costs negatively impacted margins.

- Net revenues remained flattish QoQ at ₹ 480 crore
- EBITDA fell 35% QoQ to ₹ 45 crore with margins at 9.4% (13.4% in Q1FY23)
- Subsequently, PAT de-grew 58% QoQ to ₹ 22 crore

What should investors do? Margins are expected to improve, going forward, led by higher rice procurement from FCI (40% in Q2), better product mix (IMIL is expected to claw its lost MS). However, higher usage of rice straw as power source and availability of coal at better prices remain key monitorables on margins front.

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

Target Price & Valuation: We value the stock at ₹ 1000 i.e. 11x P/E on FY24E EPS.

Key triggers for future price performance: With doubling of the current capacity by FY24 to ~900 KLPD, GSL plans to capitalise the changing dynamics in the liquor space. Further, growing opportunities in IMIL space (better price points and growing aspirations) would lead to higher asset turnover and return ratios in the long run.

- Capturing premium price points in IMIL space via higher strength liquor
- The government expedited 20% blending target to 2025, leading to higher diversion of ENA towards ethanol
- Net debt expected to decline with return ratios reaching 30%+ levels

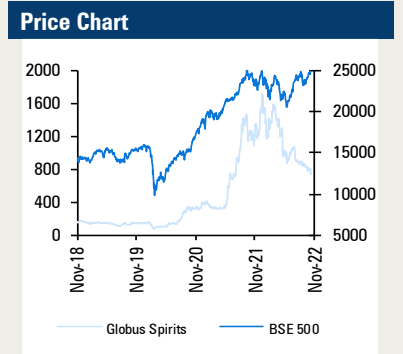
Alternate Stock Idea: Apart from GSL, we remain positive on United Spirits (USL).

- USL is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 1050



Particulars	
Market Capitalisation (₹ cr)	2,151.4
Total Debt (₹ cr) - FY22	174.0
Cash (₹ cr) - FY22	76.1
EV (₹ cr) - FY22	2,249.3
52 Week High / Low (₹)	1760/721
Equity Capital (₹ cr)	28.8
Face Value (₹)	10.0

Shareholding pattern				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.9	51.0	51.0	51.0
Others	49.1	49.0	49.0	49.0



- Recent event & key risks**
- Commissioning of 60 KLPD WB and Jharkhand brownfield
 - Key Risk:** (i) Hardening of raw material prices (ii) Delay in commissioning of Jharkhand, WB plant

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Harshal Mehta
harshal.mehta@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR
Net Sales	1,168.8	1,230.8	1,579.2	15.0%	2,027.0	2,397.2	23.2%
EBITDA	124.7	254.7	328.6	43.1%	263.5	407.5	11.4%
PAT	49.9	140.8	187.3	91.0%	151.0	255.1	16.7%
P/E (x)	43.1	15.3	11.5		14.2	8.4	
M.Cap/Sales (x)	1.8	1.7	1.4		1.1	0.9	
RoCE (%)	14.5	28.0	27.9		17.4	23.3	
RoE (%)	11.2	24.1	24.2		16.5	22.0	

Source: Company, ICICI Direct Research

Key takeaways

Q2FY23 Results: Margins reach nadir

- The Rajasthan policy change impacted the IMIL product mix (higher value sales over value+)
- IMIL sales in Haryana were impacted by focus on profitable sale and thereby loss of market share (MS). Other competitors have followed suit. Thus, the management expects MS to recover
- Bulk realisation improved to ₹ 59/litre from ₹ 57/litre in Q1FY23

Q2FY23 Earnings Conference Call highlights

- The Jharkhand plant saw commercialisation in Q2. Globus capacity utilisation was at 92%
- Fuel cost inflation could not be passed to bulk customers, impacting margins. ENA price hike (~4%) however, limited the negative impact
- Jharkhand and West Bengal expansion (60 klpd) is expected to be commissioned in Q1FY24
- P&A IMFL volumes are expected to reach 6% of consumer revenues in FY23
- The management sees margins progressing towards 15% from Q3 onwards
- Other segment continues to stay at 13% levels (on an annualised basis)
- On Rajasthan policy change, the management expects the situation to get reversed in the medium term. The Rajasthan government has initiated steps to curb the higher growth in the value+ segment and support value segment growth to protect local industries. However, the management feels that consumer demand for value+ has been strengthening and the current policy situation is unsustainable
- Fuel prices have begun to soften as the harvest season has arrived
- Glass inflation continues to witness a pick-up due to higher natural gas prices
- On Haryana, the company has been the first mover to raise prices and thereby lost MS. However, other companies have also increased prices thereby stabilising the market

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E
Total Operating Income	1,230.8	1,579.2	2,027.0	2,397.2
Growth (%)	5.3	28.3	28.4	18.3
Raw Material Expenses	653.2	838.4	1,175.7	1,342.4
Gross Profit	577.6	740.8	851.4	1,054.8
Gross Profit Margins (%)	46.9	46.9	42.0	44.0
Employee Expenses	38.4	50.1	60.8	71.9
Other Expenditure	284.5	362.1	527.0	575.3
Total Operating Expenditure	976.1	1,250.6	1,763.5	1,989.7
EBITDA	254.7	328.6	263.5	407.5
Growth (%)	104.2	29.0	-19.8	54.6
Interest	18.8	11.4	13.4	16.4
Depreciation	40.7	42.6	58.4	65.3
Other Income	6.6	6.6	10.1	15.1
PBT before Exceptional Items	201.8	281.3	201.8	340.9
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	201.8	281.3	201.8	340.9
Total Tax	61.0	94.0	50.8	85.8
PAT before MI	140.8	187.3	151.0	255.1
Minority Interest	0.0	0.0	0.0	0.0
PAT	140.8	187.3	151.0	255.1
Growth (%)	182.2	33.0	-19.4	68.9
EPS (Adjusted)	48.9	65.0	52.4	88.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	140.8	187.3	151.0	255.1
Add: Depreciation & Amortization	40.7	42.6	58.4	65.3
Add: Interest Paid	18.8	11.4	13.4	16.4
Net Increase in Current Assets	-89.3	-65.3	-41.7	-50.4
Net Increase in Current Liabilities	28.2	-14.6	51.6	35.5
Others	0.5	57.4	0.0	0.0
CF from Operating activities	139.7	218.8	232.7	321.9
(Purchase)/Sale of Fixed Assets	-61.7	-172.9	-142.0	-125.0
Long term Loans & Advances	1.4	5.4	0.0	0.0
Investments	0.0	0.0	-160.0	-230.0
Others	-15.9	-53.2	-1.8	-1.9
CF from Investing activities	-76.1	-220.8	-303.8	-356.9
(inc)/Dec in Loan	-3.3	40.0	50.0	50.0
Dividend & Dividend tax	-3.3	-8.6	-8.6	-8.6
Less: Interest Paid	-18.8	-11.4	-13.4	-16.4
Other	0.0	0.0	0.0	0.0
CF from Financing activities	-25.4	20.0	27.9	24.9
Net Cash Flow	38.1	18.0	-43.2	-10.0
Cash and Cash Equivalent at the	20.0	58.1	76.1	33.0
Cash	58.1	76.1	33.0	23.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	28.8	28.8	28.8	28.8
Reserve and Surplus	556.5	743.5	885.9	1,132.4
Total Shareholders funds	585.3	772.3	914.7	1,161.2
Minority Interest	-0.9	0.0	0.0	0.0
Total Debt	134.0	174.0	224.0	274.0
Deferred Tax Liability	59.3	91.1	91.1	91.1
Long-Term Provisions	3.0	3.3	3.3	3.4
Other Non Current Liabilities	7.7	6.8	6.9	7.0
Source of Funds	788.3	1047.4	1240.0	1536.7
Gross Block - Fixed Assets	730.9	861.6	1,061.6	1,186.6
Accumulated Depreciation	174.4	212.0	270.3	335.6
Net Block	556.4	649.7	791.3	851.0
Capital WIP	48.3	98.0	40.0	40.0
Fixed Assets	604.7	747.7	831.3	891.0
Investments	0.0	0.0	160.0	390.0
Other non-Current Assets	77.1	100.8	102.8	104.8
Inventory	102.2	108.5	183.3	216.7
Debtors	87.9	118.1	83.3	98.5
Loans and Advances	8.2	1.1	1.1	1.1
Other Current Assets	53.8	84.4	86.1	87.8
Cash	58.1	76.1	33.0	23.0
Total Current Assets	310.2	388.1	386.7	427.1
Creditors	118.8	138.3	188.8	223.3
Provisions	3.1	6.7	6.9	7.0
Other Current Liabilities	81.8	44.1	45.0	45.9
Total Current Liabilities	203.7	189.1	240.7	276.2
Net Current Assets	106.5	199.0	146.0	150.9
Application of Funds	788.3	1,047.4	1,240.0	1,536.7

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	48.9	65.0	52.4	88.6
Cash EPS	47.8	62.0	49.4	85.6
BV per share	203.2	268.2	317.6	403.2
Cash per Share	20.2	26.4	11.4	8.0
Dividend per share	1.2	3.0	3.0	3.0
Operating Ratios (%)				
Gross Profit Margins	46.9	46.9	42.0	44.0
EBITDA margins	20.7	20.8	13.0	17.0
PAT Margins	11.4	11.9	7.5	10.6
Inventory days	30.3	25.1	33.0	33.0
Debtor days	26.1	27.3	15.0	15.0
Creditor days	35.2	32.0	34.0	34.0
Asset Turnover	1.7	1.8	1.9	2.0
Return Ratios (%)				
RoE	24.1	24.2	16.5	22.0
RoCE	28.0	27.9	17.4	23.3
RoIC	31.4	32.8	19.8	29.9
Valuation Ratios (x)				
P/E	15.3	11.5	14.2	8.4
EV / EBITDA	8.7	6.8	8.4	5.1
EV / Net Sales	1.8	1.4	1.1	0.9
Market Cap / Sales	1.7	1.4	1.1	0.9
Price to Book Value	3.7	2.8	2.4	1.9
Solvency Ratios				
Debt / EBITDA	0.5	0.5	0.9	0.7
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.2	1.6	1.5	1.5

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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