



Globus Spirits Ltd. Q2 FY16 Quarterly Update

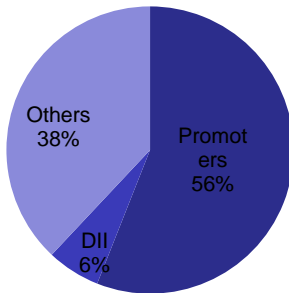
MARKET DATA

NSE TICKER	GLOBALSPR
Net worth (₹ Cr)	356
P/BV Ratio (FY16E) (x)	0.6x
Recurring EPS (FY16E) (₹)	6x
Reported EPS (FY16E) (₹)	4x
Market Price (₹)	78
52 Week High (01/12/2014) (₹)	84
52 Week Low (30/03/2015) (₹)	39
Market Capitalisation (₹ Cr)	224

AVERAGE MONTHLY VOLUME ('000)

BSE	45
NSE	176

SHARE HOLDING PATTERN



Topline & margin below expectation

Globus Spirits Ltd (GSL) Q2FY16 quarterly earnings were not in line with our estimates. Gross Sales stood at ₹216 crs, an increase of 4.8% y-o-y (₹206crs.) but declined 7.7% q-o-q (₹234 crs). EBITDA margin declined to 8.2% in Q2FY16 from 10.1% in Q1FY16 & from 8.5% in Q2FY15. This was largely due to lower profitability in manufacturing segment due to lower alcohol prices. PAT stood at ₹1.3crs in Q2FY16 compared to ₹1.2crs in Q2FY15 & ₹3.5crs in Q1FY16.

Resurgent Consumer Segment

Contribution from the consumer segment increased from 42% in Q2FY15 to 54% in Q2FY16. Volumes in the IMIL segment grew by 3% q-o-q & stood at 2.9mn. cases compared to 2.8mn cases in the last quarter, whereas the blended realisation dropped marginally to ₹296.3/case from ₹297.5/case q-o-q. Sales in Rajasthan (60% volume contribution) grew by 3% q-o-q to 1.7mn cases while sales in rest of the states remained flat. We expect volumes to increase in H2 as GSL majorly operates in North India which is relatively colder than rest of India.

Manufacturing segment under delivers but expected to bounce back

Manufacturing segment sales declined 7% to ₹744 mn resulting in its contribution decline from 58% to 46% y-o-y. This is primarily due to lower franchise bottling volumes in Rajasthan as IMFL players are focussing on premiumisation and not volumes. Overall, volumes from Rajasthan & Haryana markets decreased from 0.79mn cases in Q1FY16 to 0.66mn cases. This is also reflected in decline in excise duty. Average realisation for bulk alcohol decreased by 2% from ₹41.2/litre to ₹40.5/litre q-o-q. However, with the Government contemplating increase in ethanol blending and lucrative rate from next fiscal year, management expects a rise of 3-5% in the ENA prices.

Raw Material prices stabilizes; DDGS supported overall margin

Raw Material prices over the past quarter have been stable. This has led to an increase in Gross profit margin q-o-q from 41.5% to 42.5%. Meanwhile, contribution to the operating income by DDGS has increased from 8% in Q2FY15 to 10% in Q2FY16. It has been consistently performing well over the past few quarters.

Outlook and Valuation

Expansion plans in the Eastern States are on track. Out of the ₹240 cr. capex for the Bihar plant, ~₹80cr. has been utilized & another ~₹90-100crs is expected in H2FY16. Mgt. maintains commissioning guidance as H2FY17 Also, realisation in these markets is higher by 10-15% due to deficit of alcohol production and offers better margin profile.

We have cut our earnings estimate & assign a P/E of 6x on FY18EPS, discounting it by two years using the cost of equity of 18% & thus revise to **HOLD** rating with a revised price target of ₹73, from our earlier target of ₹77;

RETURN	3M	6M	12M
GSL	-10	27	-17
Sensex	-7	-7	-8

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Quarterly Performance:

Particulars Rs. Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	161	137	18	158	2	585	496	0
EBITDA	13	12	15	16	(16)	49	45	0
EBITDA%	8	8	(25)	10	(184)	8	9	NM
Interest	5	4	14	4	33	14	10	0
PBT	1	1	(2)	5	(70)	10	3	2
Reported PAT	1	1	5	3	(64)	7	8	(14)
Recurring EPS	0.4	0.4	5	1	(64)	2	4	NM



Q2FY16 Concall Highlights

- 1) After a couple of difficult years in terms of higher input prices, GSL management expects that FY16 & FY17 to start yielding results.
- 2) Operations started from Bihar in Jan '2015.
- 3) To adopt 360 degree approach in Bihar & WB markets too.
- 4) DDGS showing consistent growth.
- 5) OMC's have received tenders for ethanol blending mandate which should up bulk alcohol prices.
- 6) IMIL brands have shown y-o-y volume growth.
- 7) Third party bottling in Rajasthan, has shown a lower off take due to premiumisation strategy adopted by IMFL players
- 8) Trade receivables increased due to higher freight & packing charges.
- 9) GSL faces competition in Haryana market but it is showing signs of revival
- 10) Bihar expansion project is in full swing.
- 11) There will be an increase in the realisation of DDGS & CO2 going forward.
- 12) GSL will be entering the premium space with the IMFL business.
- 13) Bihar has higher ENA rates(10-15% higher) compared to other states.
- 14) IMIL brands such as Heer-Ranjha & Ghoomar doing well in Rajasthan market.



QUARTERLY PERFORMANCE:

Particulars (Rs. Crs.)	Q2 FY16	Q2 FY15	YoY%	Q1 FY16	QoQ%	FY15	FY14	YoY%
Sales	161	137	18	158	2	585	496	18%
Other Operating Income	1	0	561	-	-	1	0	200%
Net Sales	162	137	579	158	2	586	497	18%
Expenditure								
Raw Material	96	89	8	89	9	351	323	9%
Stock Adjustment	(3)	(10)	(70)	4	(184)	1	(15)	-105%
Employee Cost	4	3	24	4	5	14	12	18%
Other Expenses	51	43	19	46	13	171	131	30%
Total Expenditure	148	125	0	142	5	537	452	19%
EBITDA	13	12	15	16	(16)	49	45	8%
Depreciation	8	7	30	9	(2)	29	29	1%
Other Income	1	0	179	1	39	4	3	52%
EBIT	6	5	10	8	(26)	24	19	26%
Interest Cost	5	4	14	4	33	14	10	38%
PBT	1	1	(2)	5	(70)	10	3	222%
Tax	0	0	(49)	1	(91)	3	(1)	-420%
PAT	1	1	5	3	(64)	7	4	69%
PAT(Adj.)	1	1	5	3	(64)	7	8	-14%
Networth	356	354	1	355	0	355	351	1%
FV	10	10	NA	10	NA	10	10	NA
EPS	0.4	0.4	5	1	(64)	2	4	-31%

P&L on 100

Particulars	Q2 FY16	Q2 FY15	Q1 FY16	FY15	FY14
Sales	100	100	100	100	100
Other Operating Income	0	0	0	0	0
Net Sales	100	100	100	100	100
Expenditure					
Raw Material	57	51	61	60	56
Employee Cost	3	2	2	2	2
Operating & Manufacturing Expenses	32	32	29	29	26
Total Expenditure	92	85	93	91	85
EBITDA	8	8	10	8	9
Depreciation	5	5	5	5	6
Other Income	1	0	1	1	1
EBIT	4	4	5	4	4
Interest Cost	3	3	2	2	2
PBT	0.8	1	3	2	0.6
Tax	0.1	0.1	0.7	0.5	-0.2
PAT	0.8	0.9	2.2	1.2	0.8



OUTLOOK & VALUATION: -

Expansion plans in the Eastern States are on track. Mgt. maintains commissioning guidance as H2FY17. Also, realisation in these markets is higher by 10-15% due to deficit of alcohol production and offers better margin profile. Out of the ₹240 cr. capex for the Bihar plant, ~₹80cr. has been utilized & another ~₹90-100crs is expected in H2FY16.

Considering the weak outlook in manufacturing segment we have cut our earnings estimate for FY16E & FY17E. We continue to assign a P/E of 6x on FY18EPS, discounting it by two years using the cost of equity of 18% & thus revise to **HOLD** rating with a revised price target of ₹73, from our earlier target of ₹77;

REVISED ESTIMATES: -

Particulars (Rs. Crs.)	FY16			FY17		
	Revised	Old	Change	Revised	Old	%Change
Sales	664	694	-4%	830	850	-2%
EBITDA	65	73	-11%	92	98	-6%
Recurring PAT	18	28	-36%	32	38	-13%



Profit & Loss

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	496	586	664	830	972
YoY (%)	-1%	18%	13%	25%	17%
Total expenses					
Raw Material Cost	218	238	270	337	392
Employee costs	12	14	16	19	22
Other Manu. Cost	138	172	250	304	340
EBITDA	45	49	65	92	126
YoY (%)		8%	33%	42%	37%
EBIDTA (%)	9%	8%	10%	11%	13%
Depreciation	21	22	27	30	35
EBIT	23	27	38	63	91
Interest	10	14	16	20	22
Other income	3	4	3	0	-1
PBT	16	17	24	43	69
Less: Taxation	(1)	3	6	11	21
Effective tax rate (%)	-6%	19%	25%	25%	30%
Recurring PAT	17	14	18	32	48
YoY (%)		-18%	29%	79%	48%
PAT (%)	3%	2%	3%	4%	5%
Exp. items (net of tax)	(13)	(6)	(6)	(6)	(6)
Reported PAT	4	8	12	27	43

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	1.8	4.9	6.3	11.3	16.7
Reported EPS (Rs)	0.5	2.9	4.3	9.3	14.8
Book value (Rs)	120.7	123.3	126.4	134.6	147.9
Dividend per share (Rs)	0.3	0.6	1.0	1.0	1.2
Net Debt Equity Ratio	0.2	0.3	0.6	0.5	0.3
Payable Days	43.6	32.3	30.8	31.0	31.0
Debtor Days	26.1	15.8	17.1	17.5	17.0
Inventory Days	25.1	20.7	20.0	20.0	20.0
ROCE (%)	0.1	0.1	0.1	0.1	0.1
Recurring ROE (%)	0.0	0.0	0.1	0.1	0.1
ROA (%)	0.0	0.0	0.0	0.0	0.1
Div Yield (%)	0.0	0.0	0.0	0.0	0.1
Valuation Ratios					
PE (x)	173.1	41.7	12.4	6.9	4.7
Cash P/E (x)	170.6	26.5	18.0	8.4	5.3
Price/book value (x)	0.6	0.6	0.6	0.6	0.5
Market cap/sales (x)	1.3	1.7	0.3	0.3	0.2
EV/sales (x)	1.9	2.2	0.7	0.6	0.4
EV/EBITDA (x)	7.7	8.1	7.7	5.2	3.2
Earnings growth					
EBITDA (%)	-36%	8%	33%	42%	37%
EPS (%)	-97%	316%	236%	79%	48%
PAT (%)	-50%	-18%	29%	79%	48%

Balance Sheet

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Equity capital	96	29	29	29	29
Reserves	255	326	335	359	397
Net worth	351	355	364	388	426
Total borrowings	101	144	273	256	180
Minority Interest	0	0	0	0	0
Non Curr. Liabilities	95	93	117	136	153
Curr. Liabilities	94	98	107	135	158
Total liab.	641	689	862	915	916
Net block	444	492	645	655	640
Investments	0	0	0	0	0
Others	82	89	100	113	117
Current assets					
Inventories	46	50	49	62	74
Debtors	47	38	47	60	68
Cash	6	6	0	-1	-6
Other Curr. assets	16	14	20	25	22
Total assets	641	689	862	915	916

Cash Flow

(Rs Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Pre Tax Profit	3	12	19	38	63
Depn and w/o	21	22	27	30	35
Change in working cap	(27)	11	(4)	(4)	6
Taxes Paid	12	(6)	(5)	(10)	(19)
Others	(6)	7	29	25	32
Op. Cash flow	3	46	65	78	117
Capex (Net)	(29)	(70)	(180)	(40)	(20)
Investments	0	(0)	0	0	0
Inv. Cash flow	(29)	(70)	(180)	-40	-20
Dividend	(4)	(2)	(3)	(3)	(4)
Fresh Equity	0	6	0	0	0
Others	0	(8)	0	0	0
Debt	15	42	129	(17)	(77)
Interest	(10)	(14)	(16)	(20)	(22)
Fin. Cash flow	1	24	109	-40	-102
Net change in cash	(25)	(0)	(6)	(2)	(5)
Opening cash	31	6	6	0	(1)
Closing cash	6	6	0	(1)	(6)



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