



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

GLOBUS SPIRITS LTD.	BSE CODE: 533104 NSE CODE: GLOBUSSPR
Industry: Breweries & Distilleries	CMP: Rs. 185.20 (09/09/2018)
Market Cap: 533.36 (INR in Crore)	Target Price: Rs. 360.00
Date: Sept 09, 2018	Time Period: 12 – 24 months



Saral Gyan Capital Services

www.saralgyan.in

An Independent Equity Research Firm

TABLE OF CONTENT

S.No	Content	Page No.
1.	Company Background	03
2.	Recent Developments	06
3.	Financial Performance	08
4.	Peer Group Comparison	10
5.	Key Concerns / Risks	10
6.	Saral Gyan Recommendation	11
7.	Disclaimer	13

1. Company Background



Back in 1994, Globus Spirits started its operations with a distillery in Samalkha, Haryana having an installed annual capacity of 14.4 million bulk litres. Today, the company is a largest grain based distillers in India and operates a distillery capacity of around 150 million bulk litre across four modern and fully integrated distilleries at Rajasthan, Haryana, Bihar and West Bengal. The company has presence across Distillery, IMIL (Indian made Indian liquor), IMFL (Indian made foreign liquor) and franchise bottling.

The company is focused its efforts on creating a 360 degree presence in alcohol. The company enjoys established relations with the largest brands liquor in India for supply of bulk alcohol. Globus brands of Indian Made Indian Liquor (IMIL) are leaders in the North Indian markets of Delhi, Rajasthan and Haryana, making Globus the largest player in IMIL in the country.

The 360° way is a unique model in the Indian alcohol industry perfected by the company. Globus Spirits straddle the entire value chain in alcohol starting from distillation to bottling for industry leading Indian Made Foreign Liquor brands to marketing of its own brands of Indian Made Indian and Foreign Liquors.

In the fourth quarter of FY 2016-17, the Board of Directors appointed Mr. Vijay Rekhi as Additional Director (Executive Director) of the Company. Mr. Rekhi brings in four decades of experience in IMFL space and has played an instrumental role in premiumization of various IMFL brands across segments. Under his leadership, the company has launched three niche IMFL brands through its Joint Venture - Unibev Limited (formerly was 100% subsidiary of the company, known as M/s Uber Blenders & Distillers Limited) (Indian subsidiary). Unibev has production facilities in Bengaluru & Haryana. In Haryana it has its own unit while in Bangalore the company has a tie-up.

Globus Spirits is founded by Ajay Swarup, Managing Director of the company, Mr. Vivek Gupta is the Chairman of the company. Unibev marks Mr. Swarup entry into the deluxe and premium segments of the liquor market.

Globus Spirits increased its capacity to 150 million bulk litre by adding greenfield distilleries in West Bengal and Bihar with capacity of 33 million BL and 26 million bulk litres respectively in FY 2016-17 which makes it country's biggest grain based distiller and also a bottler to brand owners.

To bring synergies with its existing business, Globus Spirits forayed into animal feed. The company has introduced a high nutrient feed ingredient, Distillers Dried Grains with Solubles (DDGS), in the Indian market. DDGS is a byproduct of alcohol manufacturing process. Globus Spirits is one of the few manufacturers providing rice based DDGS, which has even higher protein than the conventional maize based DDGS.

Product Range:**IMIL (Indian Made Indian Liquor)**

i) **Nimboo** – First IMIL brand in India positioned as mix of natural lemon flavor.

ii) **Narangi** - Popular dark spirits' brand Positioned as refreshing and juicy as Orange

iii) **Ghoomer** - Tribute to Rajasthani folk dance, blend popular in winter months of the desert region

iv) **Heer Ranjha** – It's a smooth blend, Tribute to the most popular romantic tales of the region.

**IMFL (Indian Made Foreign Liquor)**

i) **Governor's Reserve** – It is a 100% premium grain whisky, a carefully crafted blend with upto 12 year old imported scotch and matured Indian malts.

ii) **Oakton** – Oakton is a barrel aged rare premium grain whisky, a unique blend with upto 18 year old imported scotch and matured Indian malts.

iii) **L'Affaire Napoleon** – It is a premium brandy previously launched in Dec'17 in Pondicherry was also introduced in Karnataka.

India Alcoholic Beverages Market

India alcoholic beverage industry is one of the biggest alcohol industry across the globe only behind from two major countries such as China and Russia. Growing demand for alcoholic beverages in India is majorly attributed to the huge young population base and growing consumption of alcohol by the young generation as well as rising disposable income is strengthening the industry growth. With population of 1.3 billion India is one of the largest consumer markets across the globe. It is also demographically one of the youngest with around 50% of its population below the age of 25 and around 65% below the age of 35. The majority of alcohol volume is consumed by people between the ages of 18 and 40. These demographic stats are expected to fuel the growth of alcoholic beverages market at rapid pace in coming years.

Additionally, rapid urbanization of tier-II cities is further fuelling the market growth. The states of Andhra Pradesh, Telangana, Kerala, Karnataka, Sikkim Haryana and Himachal Pradesh are amongst the largest consumers of alcohol in India.

The Indian alcohol industry is segmented into IMFL (Indian made foreign liquor), IMIL (Indian made Indian liquor), Wine, Beer and imported alcohol. Imported alcohol has a meager share of around 0.8% in the Indian market. The heavy import duty and taxes levied raise the price of imported alcohol to a large extent. Alcohol is exempted from the taxation scheme of GST.

The Indian alcohol market is growing at a CAGR of 8.8% and it is expected to reach 16.8 Billion litres of consumption by the year 2022. The popularity of wine and vodka is increasing at a remarkable CAGR of 21.8% and 22.8% respectively. India is the largest consumer of whisky in the world and it constitutes about 60% of the IMFL market.

As per Goldstein Research, the India alcoholic beverages market is expected to grow at a CAGR of 7.4% during the period 2016-2024. Further, the market is anticipated to reach USD 39.7 billion by the end of forecast period as alcohol consumption is growing in urban areas of the country.

2. Recent Development

i) Increase in shareholding of Director through open market purchase – Aug 2018

On 13th Aug'18, Promoter & Director of the company, Mr. Shekhar Swarup has acquired 64,465 shares through open market purchase at Rs. 139.14 per share. His personal shareholding in the company increased to 2.09% post this transaction.

Below are the transactions made by Mr. Shekhar Swarup since beginning of this year as per details submitted to stock exchanges.

Security Code	Security Name	Name of Person	Category of Person *	Securities held pre Transaction	Securities Acquired / Disposed				Securities held post Transaction	Period ##	Mode of Acquisition #	Reported to Exchange
					Type of Securities **	Number	Value	Transaction Type				
533104	GLOBUS SPIRITS LTD.	Shekhar Swarup	Promoter & Director	539811 (1.87)	Equity Shares	64,465	8969960	Acquisition	604276 (2.09)	13/08/2018 13/08/2018	Market	14/08/2018
533104	GLOBUS SPIRITS LTD.	Shekhar Swarup	Promoter & Director	540871 (1.87)	Equity Shares	1,060	163982	Disposal	539811 (1.87)	22/01/2018 22/01/2018	Market	24/01/2018
533104	GLOBUS SPIRITS LTD.	Shekhar Swarup	Promoter & Director	534871 (1.85)	Equity Shares	6,000	954000	Acquisition	540871 (1.87)	10/01/2018 10/01/2018	Market	12/01/2018

ii) Globus Sprits forms JV - Unibev with Former USL MD Vijay Rekhi – Jun 2018

Former United Spirits MD Vijay Rekhi has struck a joint venture with India's largest bulk alcohol producer Globus Spirit to tap the premium drinks market dominated by French giant Pernod Ricard and Diageo which now controls United Spirits Ltd. Globus Sprits owns 90% stake in Unibev and Mr. Vijay Rekhi has 10% personal stake. Globus Sprits has the largest grain based distillery in India which augurs well for Unibev's premium brands portfolio.

In Phase - 1, Unibev is focused on the southern Indian states for its whisky and brandy portfolio. The company has identified high throughput outlets to ensure quick placement and movement of stocks. Southern Indian launch operations are funded through internal accruals. The company is hopeful to sell 100,000 cases by the end of first year in the market.

The company has launched two premium whiskies and one premium brandy. Governor's Reserve infused with 12 year old scotch in semi premium whisky category is priced cross lined to Royal Challenge and Royal Stag Barrel Select. Oakton Barrel Aged whisky infused with 18 years old scotch is priced cross lined to Blenders Pride and Signature Premier. L'Affaire Napoleon premium grape brandy infused with 3 years old french grape spirit is priced cross lined to Morpheus and Kyron brands.

The company will also be launching whiskies with higher aged scotch shortly. Premium Rum and Premium Vodkas are in the pipeline.

iii) Globus Spirits Ltd to restart Bihar facility - May 2018

Pursuant to order passed by the Hon'ble High Court of Patna vide dated March 7, 2018 and dated May 3, 2017, the prohibition, excise and registration department, Govt. of Bihar, vide their notification through official gazette dated March 16, 2018, has laid down certain conditions for issuance of distillery license to the company and allowed manufacture of ENA within the state of Bihar and to be sold / exported outside the state of Bihar in accordance with the provision of law.

Bihar government upon orders of the High Court has permitted manufacturing of ENA in the state implying that the company can now recommence its plants and export ENA out of the states and also out of the country. The closure of the Bihar plant seriously impacted company's financial performance in the last financial year. The company is currently evaluating market opportunities available from the Bihar plant and will accordingly restart operations over the close of this financial year.

iv) Globus Spirit's subsidiary launches IMFL brand Laffaire – Dec 2017

Globus Spirits subsidiary, Unibev has launched a brand Laffaire for distribution in the Union Territory of Puducherry in the Indian Made Foreign Liquor segment through a tie up manufacturing set up with the unit located at Banerghatta Road, Bangalore.

3. Financial Performance

Globus Spirits standalone net profit rises 380.25% in the June 2018 quarter

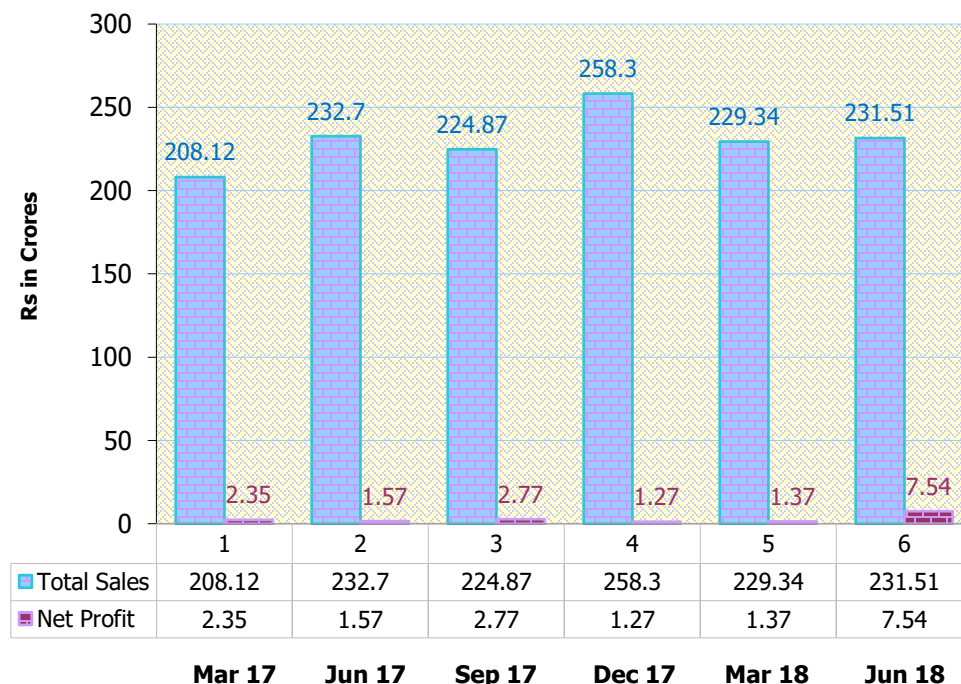
Net profit of Globus Spirits rose 380.25% to Rs 7.54 crore in the quarter ended June 2018 as against Rs 1.57 crore during the previous quarter ended June 2017. Sales declined 0.37% to Rs 231.51 crore in the quarter ended June 2018 as against Rs 232.37 crore during the previous quarter ended June 2017.

Globus Spirits standalone net profit declines 41.70% in the March 2018 quarter

Net profit of Globus Spirits declined 41.70% to Rs 1.37 crore in the quarter ended March 2018 as against Rs 2.35 crore during the previous quarter ended March 2017. Sales rose 10.20% to Rs 229.34 crore in the quarter ended March 2018 as against Rs 208.12 crore during the previous quarter ended March 2017.

For the full year, net profit declined 56.51% to Rs 7.02 crore in the year ended March 2018 as against Rs 16.14 crore during the previous year ended March 2017. Sales rose 25.16% to Rs 969.02 crore in the year ended March 2018 as against Rs 774.24 crore during the previous year ended March 2017.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018 E	Dec 2018 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	224.87	258.3	229.34	231.51	238.47	282.68
Other Operating Income	--	--	--	--	--	--
Total Income – Operations	224.87	258.3	229.34	231.51	238.47	282.68
Raw Materials Consumed	136.56	154.69	131.29	139.89	143.53	167.45
Purchase of Traded Goods	--	--	--	--	--	--
Increase/Decrease in Stocks	-9.97	-4.42	-6.5	-3.62	-4.26	-4.04
Power & Fuel	--	--	--	--	--	--
Employees Cost	5.73	5.91	5.73	5.57	5.77	5.97
Depreciation	9.38	9.05	9.15	9.01	9.01	8.79
Admin & Selling Expenses	--	--	--	--	--	--
R & D Expenses	--	--	--	--	--	--
Provisions & Contingencies	--	--	--	--	--	--
Other Expenses	74.82	85.2	81.18	63.27	70.51	88.2
P/L Before Other Income	8.36	7.87	8.49	17.38	13.91	16.31
Other Income	2.65	0.74	0.99	0.77	0.78	0.81
P/L Before Int., E. Items & Tax	11.02	8.61	9.49	18.15	14.69	17.12
Interest	6.83	6.54	6.67	6.52	6.49	6.44
P/L Before E. Items & Tax	4.19	2.07	2.81	11.63	8.2	10.68
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	4.19	2.07	2.81	11.63	8.2	10.68
Tax	1.42	0.8	1.44	4.09	3.02	3.89
P/L After Tax – Ord. Activities	2.77	1.27	1.37	7.54	5.18	6.79
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	2.77	1.27	1.37	7.54	5.18	6.79
Equity Share Capital	28.8	28.8	28.8	28.8	28.8	28.8
Reserves	--	--	--	--	--	--
Calculated EPS	0.96	0.44	0.49	2.62	1.8	2.36
Calculated EPS (Annualised)	3.84	1.76	1.96	10.48	7.19	9.43
Public Shares Holding	12426686	12892498	13187450	13187450	NA	NA
Public Share Holding (%)	43.15	44.77	45.79	45.79	NA	NA

As per our estimates, the company will report improvement in its revenue with better operating profit margins in coming quarters compared to last year on account of new brand launches in IMIL and IMFL segment.

4. Peer Group Comparison

PEER GROUP	GLOBUS SPIRITS	GM BREWERIES	ASSOCIATED ALCOHOL	SOM DISTILLERIES
CMP	185.20	758.10	333.60	232.90
52 W H/L	200.00/71.00	969.60/332.84	421.75/147.20	322.65/134.45
Market Cap	533.36	1386.00	603.12	726.76
Results (in Crores)	Jun-18	Jun-18	Jun-18	Jun-18
Sales	231.51	110.39	99.41	115.70
PAT	7.54	22.19	11.47	11.13
Equity	28.80	15.00	18.00	10.61
EPS (TTM)	4.50	3.15	18.80	18.01
P/E	41.19	16.32	20.60	27.70

We find Globus Spirits valuations attractive compared to other players with expected increase in profitability. The company is currently available at price to book ratio of 1.4 whereas other companies in the same Industry are commanding price to book in the range of 4 to 5.

5. Key Concerns / Risks

- Any change in regulation from central and state government is one of the major risk for the companies operating in alcohol Industry.
- Any escalation in the cost of raw materials and other inputs can impact the profit margins of the company.
- Increase in competitive intensity from other players in IMIL segment mainly in states like Rajasthan and Haryana can adversely impact the revenue of the company.

6. Saral Gyan Recommendation

- ✚ Globus Spirits is amongst the largest and most efficient grain based distillery operations in India with approx. 150 million bulk litres of distillery capacity. The company has existing facilities at Haryana and Rajasthan and commissioned Greenfield facilities in West Bengal and Bihar. Location advantage like lower raw material costs, higher utilization and other logistical benefits is expected to drive overall profitability of the company in coming years.
- ✚ Under IMIL business, the company has strong position in key states like Rajasthan, Haryana and Delhi with 4 IMIL Brands. The company enjoys leadership position in Rajasthan IMIL with 30% market share. The company commenced commercial production at the greenfield distillery in West Bengal in Q4 FY17 and cater to growing need of bulk alcohol in West Bengal which is witnessing a huge deficit. Globus Spirits has already launched its IMIL brand Goldee in West Bengal and the overall traction is positive.
- ✚ The company's Joint venture Unibev (the company owns 90% stake and 10% is owned by former United Spirits MD Vijay Rekhi) has launched 3 IMFL liquor brands i.e. Governor's Reserve Whisky, Oakton Whisky and L'Affaire Napoleon Brandy in southern states. The new brand launches in IMFL as well as IMIL and planned expansion in other states is expected to bring significant revenue growth over next 2 to 3 years.
- ✚ Under Unibev, the company's strategy is to build portfolio of four to six niche brands in price segments which contribute maximum profit and currently only have two to three dominant brands. Premium IMFL is a highly attractive segment account for over 45% of total profit contribution with just 13% of total volumes. Indian premium alcohol market is growing at a steady CAGR of 8% in last 3 years compared to flattish performance of overall IMFL industry. Under leadership of Mr. Vijay Rekhi, Unibev is expected to contribute significantly in revenue growth as well as increasing operating margins of the company in long term.
- ✚ The company has registered sales CAGR of 16.7% with ROE of 2.6% over last 3 years. The company's performance was poor in past, however we believe with recent expansion in capacity, favourable High Court decision for commencing operation at Bihar's plant and entry into high margin IMFL category will improve company's performance over next 2 years.

KEY FINANCIALS	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018
Return on Equity (%)	1.52	1.99	3.44	2.42	1.85
ROCE (%)	1.01	1.55	2.19	1.51	1.26
Operating Profit Margin (%)	8.44	9.06	10.43	5.46	2.84
Net Profit Margin (%)	0.86	1.20	1.77	1.14	0.72
Debt to Equity (%)	0.32	0.35	0.63	0.67	0.59

- As on Jun'18, promoter's shareholding in the company is 54.21%. Promoters holding is decreased by 2.64% since Jun 2017. However, recently on 13th Aug'18, Mr. Shekhar Swarup - Promoter & Director of the company has increased his holding from 1.87% to 2.09% by purchasing 64,465 shares. FILs holds 18% stake in the company with major holding of Templeton Strategic Emerging Markets Fund IV, LDC at 17.49%.

QUARTER	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18
Promoters Shareholding (In %)	56.85	56.85	55.23	54.21	54.21

- The company has paid dividend in initial 4 years from 2010 to 2013 post its listing on exchanges in 2009. Later it skipped paying dividends due to lower profit margins and ramping up its production capacity. We expect company will start rewarding minority shareholders by announcing dividends from FY18-19 onwards with expected increase in profits.
- As per our estimates, Globus Spirits Ltd can deliver net profit of Rs. 39 crores in FY 2019-20 with annualized EPS of Rs. 13.5. At current price of 185.20, stock is available at forward P/E multiple of 13.7X based on FY19-20 earnings. Company's valuation looks attractive when compared to other listed players in the same industry.
- On equity of Rs. 28.8 crore, the estimated annualized EPS for FY 19-20 works out to Rs. 13.5 and the Book Value per share is Rs. 133.86. At current market price of Rs. 185.20, stock price to book value is 1.38.

As per various global research reports, the India alcoholic beverages market is expected to register robust growth between CAGR of 7.4% to 8.8% over next 4 to 5 years. Growing consumption of alcohol in young population with change in life style habits and rising disposable income will fuel the growth of alcoholic beverages market at rapid pace in coming years, hence expected to augur well for companies operating in this segment. Considering significant improvement in margins on the back of robust growth in the IMIL segment, increase in PAT of the company with decrease in depreciation and interest costs with improvement in capacity utilization of West Bengal plant and recommencement of production at Bihar plant by end of this FY and attractive valuations of the company compared to other listed players in the Industry, Saral Gyan team recommends **"Buy"** on **Globus Spirits Ltd** at current market price of Rs. 185.20 for target of Rs. 360 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of Rs. 185.20
- 40% at price range of Rs. 135 – 155 (in case of correction in stock price)

Portfolio Allocation: 3% of your equity portfolio

7. Disclaimer

Important Notice: Saral Gyan Capital Services is an Independent Equity Research Company.

© SARAL GYAN CAPITAL SERVICES

DISCLOSURE WITH REGARDS TO OWNERSHIP AND MATERIAL CONFLICTS OF INTEREST:

- 'subject company' is a company on which a buy/sell/hold view or target price is given/changed in this Research Report
- Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have any financial interest in the subject company.
- Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have actual/beneficial ownership of one percent or more securities of the subject company
- Neither Saral Gyan, it's Associates, Research Analyst or his/her relative have any other material conflict of interest at the time of publication of the research report.

DISCLOSURE WITH REGARDS TO RECEIPT OF COMPENSATION:

- Neither Saral Gyan nor it's Associates have received any compensation from the subject company in the past twelve months.
- Neither Saral Gyan nor it's Associates have managed or co-managed public offering of securities for the subject company in the past twelve months.
- Neither Saral Gyan nor it's Associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.
- Neither Saral Gyan nor it's Associates have received any compensation for products or services from the subject company.
- Neither Saral Gyan nor it's Associates have received any compensation or other benefits from the subject company or third party in connection with the research report.

GENERAL DISCLOSURES:

- The Research Analyst has not served as an officer, director or employee of the subject company.
- Saral Gyan or the Research Analyst has not been engaged in market making activity for the subject company.

Definitions of Terms Used:

- Buy recommendation:** This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- Hold recommendation:** This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
- Sell recommendation:** This means that the investor could consider selling the stock at current market price keeping in mind the objective of the recommendation service.

LEGAL DISCLAIMER: Nothing published herein or on www.saralqyan.in / www.saralqyan.com should be considered as personalized investment advice. Although our employees may answer your general customer service questions, they are not licensed under laws to address your particular investment situation. No communication by our employees to you should be deemed as personalized investment advice. This document prepared by our research analysts does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. It should be noted that the information contained herein is from publicly available data or other sources believed to be reliable. Neither Saral Gyan, nor any person connected with it accepts any liability arising from the use of this document. This document is prepared for assistance only and is not intended to be and must not be taken as the basis for any investment decision. The investment discussed or views expressed may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The recipients of Saral Gyan material should rely on their own investigations and take their own professional advice. Each recipient of Saral Gyan should make such investigations as it deems necessary to arrive at an independent evaluation of an investment referred to in this document (including the merits and risks involved), and should consult its own advisers to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down.