

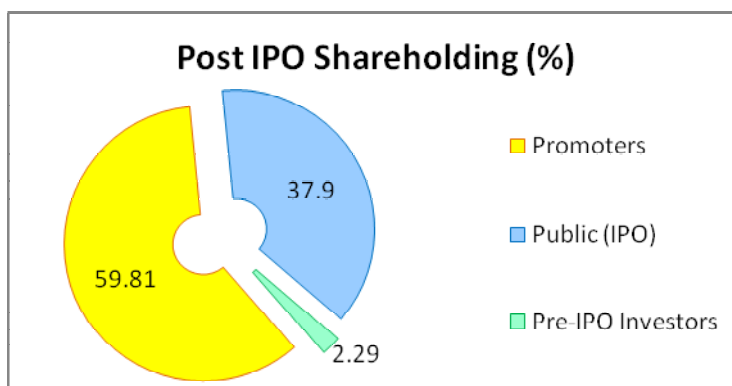


Globus Spirits Limited (GSL) IPO

Date: 29 August 2009



Issue Open	31 Aug-2 Sept 2009
Issue Price (Rs.)	Rs.90-100 (FV 10)
No. of Shares	75 Lakhs
Post IPO Equity	Rs.19.75 Crore



Company background

Samlakha (Haryana) based Globus Spirit was started in 1993. It has regd office in Delhi. It is amongst the leading players in the Alcohol industry in North India. It is in the business of manufacturing, sales and marketing of Indian Made Foreign Liquor (IMFL), Industrial Alcohol and Country Liquor.

It manufactures alcohol products from diverse raw materials like Molasses, Wheat, Rice, Maize, Grapes etc. it has 2 plants as:

Behror, District Alwar, Rajasthan: The facility is built on an area admeasuring 17.97 acres of land. The unit has its own captive supply of water and power.

Samalkha, District Panipat, Haryana: The facility is built on an area admeasuring 16.575 acres of land. This unit also has its own captive supply of water and power.

Both the Units have licensed and installed capacity of 144 lakh Bulk Litres (BL) per annum each aggregating to 288 lakh BL.

The Company has a brand portfolio:

Country Liquor	Rana, Rajasthan No.1, Ghoomar, Samalkha No.1, Samalkha Ki Saunfi, Kinnu
IMFL	White Lace Duet Gin, Samurai Premium Whisky, 20-20 Premium Whisky GR 8 Times Whisky, Hannibal Legendry Rum
Manufacturing for Others	Officer's Choice Prestige Whisky, Officer's Choice Classic Whisky Officer's Choice No.1 Brandy and Officer's Choice XXX Rum.

The Company has already launched its own IMFL brands in Haryana, Rajasthan, Chandigarh, Uttar Pradesh, Kerala, Andhra Pradesh and Karnataka.

Green Initiative: The Company has engaged Ernst & Young as Advisors regarding matters related to Kyoto Protocol under United Nations Framework Convention on Climate Change (UNFCCC). The Company is in the process of implementing greenhouse gas abatement project by utilizing biomass and biogas for steam and power generation that would reduce emission of Green House gases from fossil fuel combustions for equivalent energy generation.

Objectives of the issue

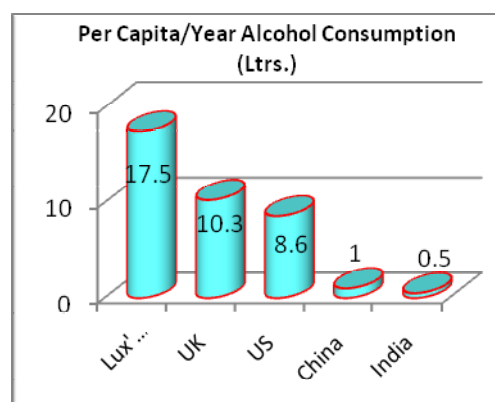
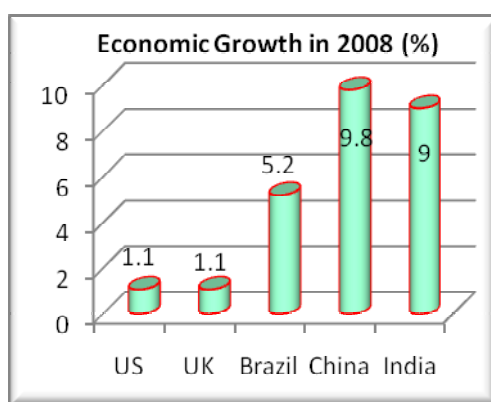
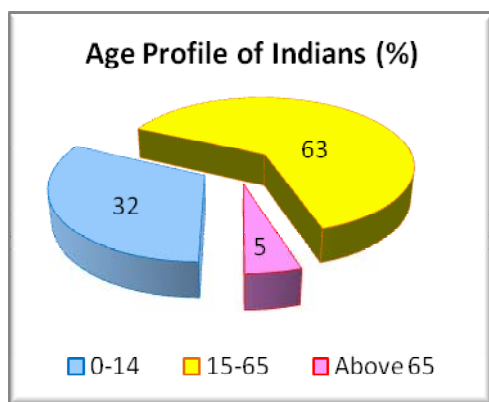
The company is likely to raise upto Rs. 75 Crore (at upper band) through the IPO. It is increasing Industrial Alcohol production capacity (license) from 144 lakh BL per annum to 249 lakh BL per annum at its Behror. It has the following capex plans, apart from meeting Corporate and issue expenses:

Particulars	Rs. Crore
Multi-Pressure Distillation plant for 35 KL/Day ENA, at Behor	6.7
Multi-Pressure Distillation plant for 35 KL/Day ENA, including slurry mixing, liquefaction, sacchrification cum fermentation along with auxiliaries etc. at Samlakha	26.7
Spirit based Starch liquefactuion section, 15KLPD expansion and fermentation modification work at Behor	4
Powerpac Travelling Grate Furnace Boilers at Behor & Samlakha	9.2
2000KW/415V Bleed-cum-Back Pressure Turbines at Behor & Samlakha	4.5
Projects under CDM (Clean Development Mechanism) of Kyoto Protocol	0.2
IMFL Bottling unit at Samlakha	2.6
IMFL Bottling unit at Behor	3.5
Brand building and marketing IMFL products	28.5
Acquisition of CSD registered IMFL brands	3
Miscellaneous Civil structures	0.4
Total Rupees Crore	89.3

Company has tied-up with SBI for a loan of Rs.12 Crore for the purpose. It has also planned Rs.14 Crore of internal accruals.

Highlights

- India has among the highest sustainable economic growth, high percentage of young population and low per capita alcohol consumption*:



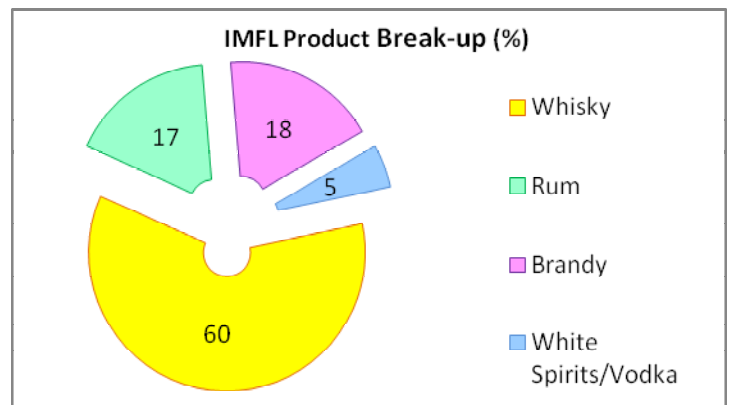
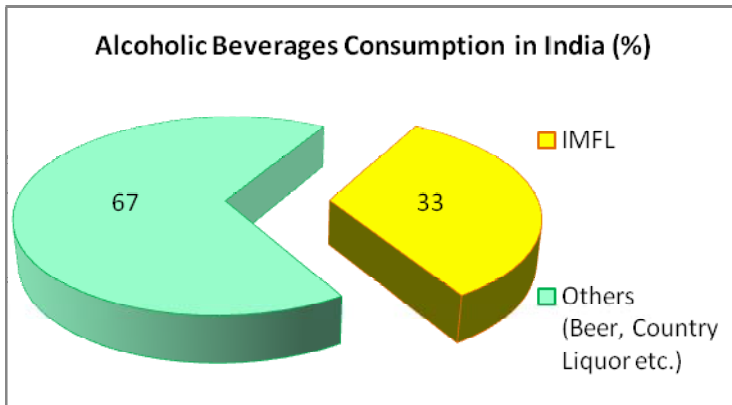
Source: Bonanza Research

*Note: Per Capita Alcohol Consumption is based on WHO Report, taking total alcohol consumption through various liquors. Alcohol content widely varies across categories, from about 2% in Light Beer to 50% in Vodka.

- There is growth in disposable incomes of Indians:

Annual Earning (Rs.)	2002 (%)	2010 E (%)	2020 E (%)
Above 1 Crore (High Income)	0.03	0.2	1.5
50 lakh-1 Crore (Upper Middle)	0.4	1.5	5
10-50 Lakhs (Middle)	5.7	12.5	20
2-10 Lakhs (Lower Middle)	21.9	33.5	40
Below 2 Lakhs	71.97	52.3	33.5

- Besides, there is gradual shift from saving to spending as consumerism gains momentum in the country. Alcohol products are emerging as lifestyle products.
- Major consumer groups include tourists, defense services, individuals etc.
- The alcohol industry is States subject. It is very important from the Government's revenue perspective. It generates an estimated Rs. 30,000 crores per annum in spite of the fact that the per capita consumption of liquor in India ranks among the lowest in the world.
- Break-Up of Alcoholic beverages consumption and product break-up of IMFL stand as:



Source: IPO Prospectus

- IMFL offers higher margins than Beer or Country Liquor, with increased spending power, Consumption of IMFL is expected to grow faster than other forms.
- Earlier Govt discouraged liquor consumption, however in recent years, liberal policies are adopted. There are deregulations now. Most of the states have changed from State Shops and/or auction model to licensing retail outlets models. Remaining States are also likely to follow. Besides, increasing revenue, this model has made products easily available and the consumers have wider choices.
- In past few states completely banned alcohol consumption but it was soon lifted, Haryana and Andhra Pradesh being the recent examples in last decade.
- There are over 40000 outlets in India, today.
- Globus is emerging as an important player in North Indian markets. Besides, it is expanding into Southern states of Kerala, Karnataka etc.
- Quality and branding are key factors to garner sales in the industry.
- GSL manufactures premium brands like Officers Choice range of Liquors. Besides, its brands have good awareness in States of Rajasthan, Haryana. Company is making efforts to gain market share in other Geographies also.
- Company has production capacities that can run on different raw materials like Molasses, Food Grain, Grapes etc. This helps in keeping Costs under control and operations are not interrupted due to raw material constrains.
- Captive Power and Water supply also help it in keeping Costs under control.
- It manufactures products for others also, where margins are visible.
- It enjoys better margins than peers.

Financial Highlights

Rs. Crore	FY 08	FY 09	3 M FY10	FY 10E
Net Sales	157	197	63	255
Other Income	3	3	1	4
Inventory	2	2	1	3
Total Sales	162	202	65	262
Operating Expenses	137	173	54	219
PBDIT	25	29	11	43
Interest	1	3	1	4
Depreciation	4	6	2	7
PBT	20	20	8	32
Tax	7	7	2	11
PAT	13	13	6	21
PBDIT (%)	15.92	14.72	17.46	16.86
Net (%)	8.02	6.44	9.23	8.06
Equity (FV 10)	12.25	12.25	12.25	19.75
EPS Rs.	10.61	10.61	4.90	10.69
CMP Rs.	100	100	100	100
PE (X)	9.42	9.42	20.42	9.35

GSL vs Peerset

Rs. Crore (FY09)	GSL	Radico	Jagatjit	Empee
Total Income	202	700	616	671
PBDIT	29	81	23	26
Net Profit	13	6	-5	10
Equity	12.25	20.5	52	19
Face Value Rs.	10	2	10	10
EPS Rs.	10.61	0.59		5.26
CMP Rs.	100	105	59	147
PE (X)	9.42	179.38		27.93
PBDIT (%)	17.46	11.57	3.73	3.87
Net (%)	9.23	0.86	-0.81	1.49
Major Brands	White Lace Samurai, 20-20	8 PM Contessa	Binnies Aristocrat	Old Secret Napolean

Risks

- Government policies regarding feed stocks and alcoholic products distribution has important bearing on the industry.
- There are often hostilities from social, religious, health awareness groups etc.
- Alcohol is a state subject. Liquor consumption is presently banned in Gujarat.
- Rajasthan as such had strong Anti-Liquor Hindu ideology, where it has major operations.
- Branded liquor market is highly competitive and entry of foreign brands can further intensify competition.
- As company is expanding its network, marketing costs can put pressure on margins.
- It is increasing output of industrial alcohol, which is a low margin business.
- Compared to peers margins are on high side, company may not sustain these in future.

Valuation & Recommendation: For Risk takers.

GSL is small North India based Liquor maker. Company is offering shares at 9.3 PE based on forward earnings, at Rs.100 upper band. Its brands are lesser known, it is aggressively marketing products into newer areas. Liquor is not very transparent sector. The investment in the sector is considered to be high risk. However, given its better valuations than peers, listing gains may accrue.

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