

G. M. Breweries Ltd.

Quick Small/Midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down). In the interest of timeliness, detailed financial projections are not prepared.
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
- These stocks have inherent value in them and their expected rate of growth could be faster than their peers. Their current valuations may not reflect these and hence considering the current market conditions, a buy report has been issued.
- It is possible that the street may take time to recognize these or there may be adverse developments in the interim. Hence proper exit strategies have to be worked out in advance (that may include stoploss or trailing stoploss).



December 30, 2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Alcobev	Rs. 816.7	Buy in Rs 811-821 band and add more on dips to Rs 718	Rs. 895	Rs. 962	2 quarters

HDFC Scrip Code	GMBREWEQNR
BSE Code	507488
NSE Code	GMBREW
Bloomberg	GMBR IN
CMP (Dec 29, 2021)	816.7
Equity Capital (RsCr)	18.3
Face Value (Rs)	10
Equity Share O/S (Cr)	1.8
Market Cap (RsCr)	1493
Book Value (Rs)	366.6
Avg. 52 Wk Volumes	111760
52 Week High	923
52 Week Low	365

Share holding Pattern % (Sept, 2021)	
Promoters	74.43
Institutions	1.60
Non Institutions	23.97
Total	100.0



HDFCsec Retail research
stock rating meter
for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

G.M. Breweries Ltd. (GMBL) set up in 1981 by Mr. Jimmy Almedia, is engaged in manufacturing of Country Liquor or Indian made Indian Liquor (IMIL), a segment which is largely unorganised in contrast to Indian made Foreign Liquor (IMFL) which is organised and highly regulated segment. It is the largest manufacturer of country liquor in state of Maharashtra with an installed capacity of 13.76 million bulk litre (~50000 cases per day) in Thane district, Maharashtra. From introducing 180 ml bottle in the country liquor industry when only 750 ml & 375 ml bottles were doing the rounds to introducing PET bottles in the industry, GMBL has been an industry pioneer. GMBL's brands enjoy a virtual monopoly in country liquor across Mumbai, Thane and Palghar regions.

The liquor industry has strong entry barriers in the form of licensing and ban on advertisement, in which GMBL enjoys strong brand value in Maharashtra leading to customer loyalty supported by strong distribution network. The company is also making concerted efforts to penetrate deeper into other districts of Maharashtra. While the category growth has been low, larger players in country liquor space like GMBL have continued to gain market share. Also, given the lower price point of the category (Rs 40-45/180 ml), in an environment of higher costs, we expect a more pronounced market share gains, further aided by possible down-trading given increased IMFL prices, pressure on earnings at personal levels and government's crackdown on illicit liquor trade.

Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY18	FY19	FY20	FY21
Operating Income	116	73	59.7	70	66.4	425.9	464.0	468.6	340.1
EBITDA	29	15	91.3	16	78.0	107.6	116.9	88.7	75.3
APAT	22	11	94.9	12	87.7	72.9	82.3	67.9	80.1
Diluted EPS (Rs)	12.0	6.1	94.9	6.4	87.7	49.8	45.0	37.1	43.8
RoE-%						28.3	25.0	17.0	17.1
P/E (x)						16.4	18.1	22.0	18.6
EV/EBITDA						13.8	12.8	16.6	19.7

(Source: Company, HDFC sec)

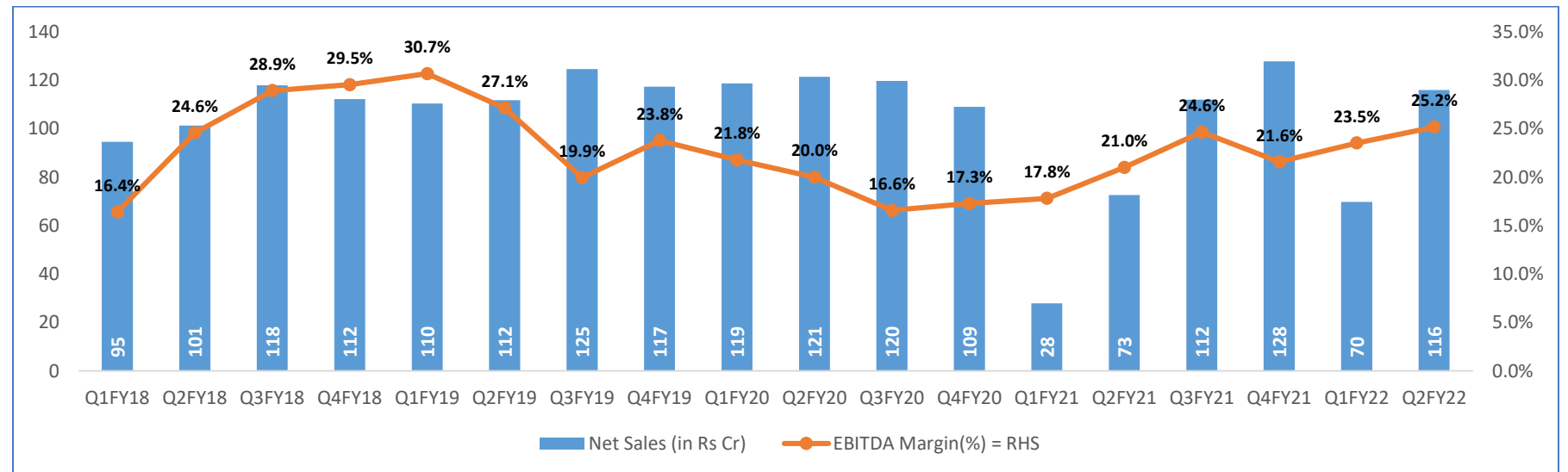


Valuation & Recommendation:

GMBL reported a solid set of numbers in Q2FY22 on the back of reopening of economy and easing of travel restrictions. While H1FY21 was a disaster for the liquor industry, the company did bounce back strongly in H1FY22 and we expect the momentum to continue in upcoming quarters. In addition to the revenue momentum, we expect the company to maintain its margins for H2FY22 on stable input prices. This along with superior balance sheet strength and inexpensive valuation makes GMBL a good case for opportunistic short term investing. The Board of GMBL will meet on Jan 07, 2022 to consider Q3FY22 results.

GMBL could report 19.1%, 26.1% and 12.1% CAGR in Sales, Operating profit and PAT over FY21-FY23. The profit growth could be slower due to exceptional investment income in FY21. EPS could rise from 43.8 to Rs.55.1 in the same period. **We believe investors could buy the stock in Rs 811-821 band and add more on dips to Rs 718 for base case fair value of Rs 895 and bull case fair value of Rs 962 over the next 2 quarters.**

Though the business fundamentals and financial profile of the company have remained robust, questionable capital allocation policy (Rs ~ Rs 397 Cr in properties and other financial assets as on March'21 which translates into ~27% of market cap and ~78% of net worth), lower dividend pay-out despite negligible capex requirements and concentrated core business (1-product, 1-region) make the long-term investment case look less clear at the moment. Additionally, the disclosure levels of GMBL are not high as few details about volumes, realisation, brand split, capex plans, use of cash equivalents, entry into sales territories, etc. are not available in the public forum.





Triggers

Strong brand portfolio, superior financial profile; a solid moat

GMBL's brands (G.M. Santra, G.M. Doctor, G.M. Limbu Punch and G.M. Dilbhaar Sounf) have been enjoying consistently good brand image and loyalty from the consumers for the past several years and the company enjoys virtual monopoly in country liquor in the districts of Mumbai, Thane & Palghar. Reportedly, as per the State Excise Department the company contributes about 25-30% of the total Excise duty for country liquor in Maharashtra, indicating >25% market share for the company. The company has capacity to process 13.76 Cr bulk litres of country liquor per annum while utilisation levels have been <50%. Tackling the lower capacity utilisation, GMBL remained prudent in controlling costs. It is also making concerted efforts to penetrate deeper into other districts of Maharashtra taking advantage of its brand image which should drive utilisation levels and incremental volume growth.

The prices of rectified spirits have remained stable in past few months amidst increased ethanol blending demand from OMCs as Maharashtra is expected to report a record sugarcane production in 2021-22. Inflation in packaging costs (mainly PET bottles) due to the increase in crude oil prices could impact margins a bit. GMBL's financials will grow at a faster pace realising the dual benefits of higher revenues (demand recovery) and stable RM prices.

GMBL's Cash Conversion Ratio (CFO/PAT) of 101.46% (avg. FY16-20) is the best in liquor industry implying the strength of its brands. It is cash-rich, debt free, and does not require any substantial capital given the lower utilization levels currently which means continued robust free cash flow (FCF) generation.

Expect normalisation in demand with opening up of economy

The liquor industry right from the onset of the Covid-19 pandemic, took a heavy blow owing to the subsequent nationwide lockdown and social distancing norms leaving an adverse effect on the manufacturers. The lockdowns that led to reverse migration of labour had severe impact on GMBL given the blue-collar workers form the biggest proportion of its consumer base. However, with the resumption of operations across industries in and around Mumbai, and opening up of bars and restaurants with easing restrictions have aided the volume recovery in Q2FY22. We expect this to flow into coming quarters as the economic activity traces back to pre-Covid levels.

Also, government's recent crackdown on illicit liquor trade across Maharashtra ([Link](#)) and especially in Mumbai Metropolitan Region, as it realizes the importance of the liquor industry from state finances standpoint, will benefit branded country liquor player like GMBL which enjoys virtual monopoly in the region.



Concerns

Constantly changing regulatory environment: The liquor industry is exposed to multiple regulatory risks emanating from state taxes, adverse ruling from courts and changes in regulations with respect to pricing, licensing, working of operating facilities, manufacturing processes, marketing, advertising and distribution.

Volatility in RM prices: Rectified Spirits and packaging material are the two key raw materials. Any price volatility in the price of these components can affect company's profitability.

Recurrence of Covid-19 and subsequent lockdowns may affect the sales of liquor as it isn't classified as essential commodity. Also, lockdowns may lead to reverse migration and hamper the sales of country liquor, consumers of which typically are blue-collar workers.



Financials

Income Statement

Particulars (Rs cr)	FY18	FY19	FY20	FY21
Net Revenues	425.9	464.0	468.6	340.1
<i>Growth (%)</i>	<i>13.5</i>	<i>9.0</i>	<i>1.0</i>	<i>-27.4</i>
Operating Expenses	318.3	347.1	379.9	264.8
EBITDA	107.6	116.9	88.7	75.3
<i>Growth (%)</i>	<i>56.1</i>	<i>8.6</i>	<i>-24.1</i>	<i>-15.1</i>
EBITDA Margin (%)	25.3	25.2	18.9	22.1
Depreciation	6.0	7.3	7.3	5.5
Other Income	9.7	13.7	9.4	30.3
EBIT	111.3	123.3	90.8	100.1
Interest expenses	0.0	0.1	0.1	0.1
PBT	111.3	123.2	90.8	100.1
Tax	38.4	40.9	22.9	20.0
PAT	72.9	82.3	67.9	80.1
Share of Asso./Minority Int.	0.0	0.0	0.0	0.0
Adj. PAT	72.9	82.3	67.9	80.1
<i>Growth (%)</i>	<i>67.0</i>	<i>12.9</i>	<i>-17.6</i>	<i>18.0</i>
EPS	49.8	45.0	37.1	43.8

Balance Sheet

As at March	FY18	FY19	FY20	FY21
SOURCE OF FUNDS				
Share Capital	14.6	18.3	18.3	18.3
Reserves	276.7	348.5	412.1	486.7
Shareholders' Funds	291.3	366.8	430.4	505.0
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	0.0	0.0	0.0	0.0
Net Deferred Taxes	4.7	4.2	3.6	3.3
Total Sources of Funds	296.0	371.0	434.0	508.3
APPLICATION OF FUNDS				
Net Block & Goodwill	65.7	67.2	62.0	57.3
CWIP	63.6	47.7	26.1	20.1
Investments	170.9	255.3	323.2	390.5
Other Non-Curr. Assets	5.6	10.6	10.8	10.8
Total Non-Current Assets	305.8	380.8	422.0	478.7
Inventories	11.6	17.7	20.6	28.0
Debtors	0.9	2.1	1.0	0.9
Cash & Equivalents	10.5	1.1	21.6	6.9
Other Current Assets	22.1	21.8	18.7	58.5
Total Current Assets	45.1	42.8	61.8	94.3
Creditors	5.0	4.5	11.1	3.1
Other Current Liab & Provisions	49.9	48.1	38.8	61.6
Total Current Liabilities	54.9	52.6	49.9	64.7
Net Current Assets	-9.8	-9.8	12.0	29.6
Total Application of Funds	296.0	371.0	434.0	508.3



Cash Flow Statement

Particulars (Rs cr)	FY18	FY19	FY20	FY21
Reported PBT	111.3	123.2	90.8	100.1
Non-operating & EO items	-5.0	-5.8	-0.4	-18.2
Interest Expenses	-4.8	-7.8	-8.9	-12.1
Depreciation	6.0	7.3	7.3	5.5
Working Capital Change	-6.2	-14.2	11.8	-55.9
Tax Paid	-38.5	-41.4	-21.8	-18.0
OPERATING CASH FLOW (a)	62.8	61.3	78.8	1.4
Capex	-7.5	3.2	26.8	10.6
Free Cash Flow	55.3	64.4	105.6	12.0
Investments	-62.2	-82.2	-88.0	-51.5
Non-operating income	8.4	21.6	-11.2	51.0
INVESTING CASH FLOW (b)	-61.3	-57.5	-72.3	10.1
Debt Issuance / (Repaid)	0.0	0.0	0.0	0.0
Interest Expenses	0.0	-0.1	-0.1	-0.1
Share Capital Issuance	0.0	0.0	0.0	0.0
Dividend	-4.4	-4.4	-5.5	-5.5
FINANCING CASH FLOW (c)	-4.4	-4.5	-5.5	-5.5
NET CASH FLOW (a+b+c)	-2.8	-0.7	0.9	6.0
Opening balance of cash	10.5	1.1	0.5	1.4
Closing balance of cash	7.6	0.5	1.4	7.4

One-year stock price chart



Key Ratios

Particulars	FY18	FY19	FY20	FY21
Profitability Ratios (%)				
EBITDA Margin	25.3	25.2	18.9	22.1
EBIT Margin	26.1	26.6	19.4	29.4
APAT Margin	17.1	17.7	14.5	23.6
RoE	28.3	25.0	17.0	17.1
RoCE	43.2	37.5	22.8	21.4
Solvency Ratio (x)				
Net Debt/EBITDA	-0.1	0.0	-0.2	-0.1
Net D/E	0.0	0.0	-0.1	0.0
Per Share Data (Rs)				
EPS	49.8	45.0	37.1	43.8
CEPS	53.9	49.0	41.1	46.8
BV	199.1	200.6	235.3	276.1
Dividend	3.0	3.0	3.0	4.0
Turnover Ratios (days)				
Debtor days	0.6	1.2	1.2	1.0
Inventory days	9.6	11.5	14.9	26.0
Creditors days	4.2	3.7	6.1	7.6
Valuation (x)				
P/E	16.4	18.1	22.0	18.6
P/BV	4.1	4.1	3.5	3.0
EV/EBITDA	13.8	12.8	16.6	19.7
EV / Revenues	3.5	3.2	3.1	4.4
Dividend Yield (%)	0.4	0.4	0.4	0.5
Dividend Payout	6.0	6.7	8.1	9.1

(Source: Company, HDFC sec)



HDfC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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