

India

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Overweight (no change)

Highlighted Companies

Globus Spirits Ltd

ADD, TP Rs3014, Rs869 close

We expect its performance in the coming quarters to be better because the focus may shift towards manufacturing extra neutral alcohol (ENA) from ethanol and a price hike in the IMIL segment.

BCL Industries Ltd

ADD, TP Rs790, Rs430 close

We expect a steady improvement in the performance of the company in the coming quarters, with every quarter of FY24F reporting record topline and bottomline.

Gulshan Polyols Ltd

ADD, TP Rs444, Rs258 close

Steady improvement should be seen once its 500KLPD plant is commissioned in FY24F. In our view, the correction in maize prices will also be a tailwind in FY24F.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-F	Mar24-F
Globus Spirits Ltd	13.36	18.88	7.21
BCL Industries Ltd	12.24	16.48	6.52
Gulshan Polyols Ltd	15.3	29.3	8.12

P/BV (x)	Mar22-A	Mar23-F	Mar24-F
Globus Spirits Ltd	3.24	2.79	2.05
BCL Industries Ltd	2.83	3.65	2.36
Gulshan Polyols Ltd	2.5	2.32	1.83

Dividend Yield	Mar22-A	Mar23-F	Mar24-F
Globus Spirits Ltd	0.45%	0.32%	0.83%
BCL Industries Ltd	0.41%	0.18%	0.38%
Gulshan Polyols Ltd	0.64%	0.34%	0.62%

Analyst(s)

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Agribusiness

Rice output on the rise in India

- Grain ethanol raw material (rice) crisis is a thing of the past.
- On 3 May 2023, Union Agriculture Minister Mr. N.S. Tomar released an even higher food grain production target for FY24F against the record level in FY23.
- Our top stock picks are Globus Spirits, BCL Industries and Gulshan Polyols.

Rice crisis

- Prices of broken rice, the core raw material for making grain ethanol, rose from Rs17/kg to beyond Rs21/kg because of excessive imports by China.
- Rice (whole/fit for human consumption/not broken) prices have been rising due to various reasons like a) export demand, and b) a drop in rice acreage during the last kharif season.
- However, in our view, the prices of broken rice have eased considerably because of the export ban imposed by the Government of India (GoI).
- Street tracks whole rice prices, instead of broken rice prices, because it lacks tracking data.
- In our view, prices of broken rice are back to below Rs20/kg and are heading towards Rs18/kg.

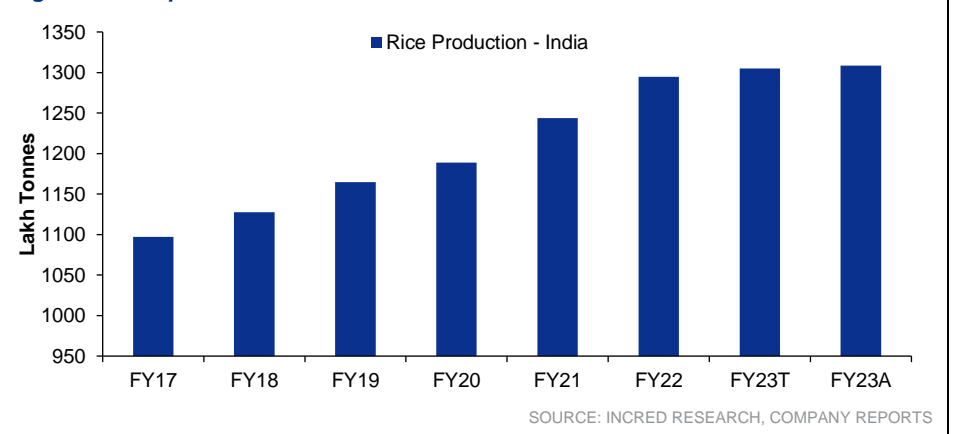
Data

- Total rice production target of the GoI for FY23 was 1,305 lakh tonnes, after a record-high production of 1,294 lakh tonnes in FY22.
- However, the second advance estimates by the GoI showed a record production of 1,308.4 lakh tonnes in FY23.
- As per the second advance estimates (2022-23), production of foodgrains in India is estimated at 3,235 lakh tonnes, which is higher by 79 lakh tonnes compared to the foodgrain output in 2021-22.
- On 3 May 2023, Union Agriculture Minister Mr. N.S, Tomar set an even higher target for food grain production in FY24F, from the record level achieved in FY23.
- National target on total food grain production is set at 3,320 lakh tonnes for the year 2023-24.

Our view

- The ban on broken rice and its record production last year has replenished the depleted stock.
- Gross profits of companies in the grain ethanol segment, including those in the extra neutral alcohol or ENA space, which were expected to jump massively by ~500bp in 2HFY24F, could start the trend from 1QFY24F itself.
- Demand for grain ENA, apart from IMFL (Indian made foreign liquor), is also being pushed up because of the higher usage mandate by state governments for making IMIL (Indian Made Indian Liquor).
- Our top stock picks are Globus Spirits, BCL Industries and Gulshan Polyols.

Figure 1: Rice production in India



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