

India

July 18, 2023 - 06:40 AM

Neutral (no change)

Highlighted Companies

BCL Industries Ltd

ADD, TP Rs790, Rs470 close

The rise in grain prices will impact the ethanol division only while high ENA prices can be passed on to the consumers. The Indian Made Indian Liquor (IMIL) segment has already taken price hikes.

Globus Spirits Ltd

ADD, TP Rs3014, Rs1249 close

The grain cost for the company is lower than that of the industry due to backward integration, but the benefits of the same would be nullified if rice prices rise.

Gulshan Polyols Ltd

ADD, TP Rs444, Rs238 close

The company could suffer a temporary setback if rice prices rise, but there is backing by the government at Rs21/kg and the scale-up of operations (to 560klpd from 60 klpd), we feel, could mitigate the cost pressure.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
BCL Industries Ltd	13.37	18	7.13
Globus Spirits Ltd	19.2	27.13	10.36
Gulshan Polyols Ltd	14.13	27.06	7.5

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
BCL Industries Ltd	3.09	3.98	2.58
Globus Spirits Ltd	4.66	4.01	2.94
Gulshan Polyols Ltd	2.31	2.15	1.69

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
BCL Industries Ltd	0.37%	0.17%	0.35%
Globus Spirits Ltd	0.31%	0.22%	0.58%
Gulshan Polyols Ltd	0.69%	0.37%	0.67%

Analyst(s)

Nitin AWASTHI

T (91) 22 4161 1550

E nitin.awasthi@incredcapital.com

Agribusiness

Food crisis looms over the horizon

- The Russia-Ukraine grain deal has collapsed, which could push the world into a 'Hunger Games' situation with grain-have/have-not countries.
- We feel El Nino and China's weather crisis will only add fuel to the fire.
- In this report, we have tried to assess the probable impact in respect of food grain and its derivatives on the companies in our coverage universe.

All is not well

- Grain prices had cooled off due to the Russia-Ukraine grain deal.
- However, Russia pulled out the plug and the crisis is back.
- As energy prices are no more a threat for Russia, grain politics is back into the limelight.

This time it's a worst-case scenario

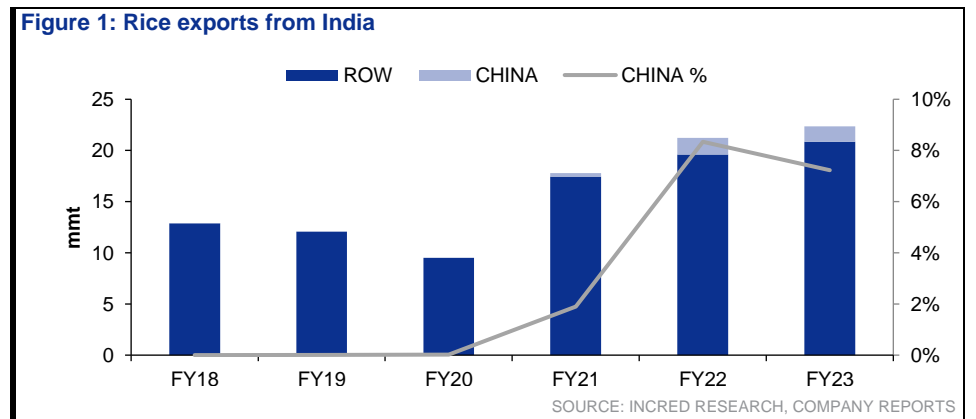
- Last time, the big nations had their grain stockpiles and hence, the crisis was downplayed.
- El Nino was not a big threat last time, but it's a nightmare currently.
- It may be recalled that China was not hit by a weather crisis earlier.

Surprisingly, India is in focus

- China's most important grain is rice, of which it is a leading producer and consumer.
- However, China knows the 'Hunger Games' may start soon and hence, has started to import whatever grain they can manage without spooking the market.
- India is the second-largest producer of rice, and also its largest exporter.
- India's domestic market has started to feel the heat of China sucking rice stocks out.
- Hence, the wake-up call, and rice exports will have to be stopped soon.
- Next year, being an election year, the government may have to halt rice exports soon.
- It's in the interest of the government to use excess rice stock as a diplomatic tool.
- Strategic rice/paddy reserves are at 13.58mmt against which, as of Jul 2023, the government holds 48.63mmt.

Likely impact on our coverage universe

- Grain ethanol/alcobev – Globus Spirits: Sentimentally negative but financially no impact as the raw material (rice) price could rise, but the end-product gets a price hike as well.
- Grain ethanol – BCL Industries: Sentimentally negative but financially there is a mild impact as the raw material (rice) price could rise, nullifying backward integration benefits.
- Grain ethanol – Gulshan Polyols: Sentimentally negative but there will be a medium impact financially as raw material (rice) price could rise, thereby hurting profitability.
- Alcobev – Som Distilleries and Breweries: Sentimentally negative but no impact financially. Barley prices may rise, but the major beer season is behind us.
- Seeds – Kaveri Seeds: Sentimentally positive but no impact financially. The noise around self-sufficiency in food grains is likely to keep the company in focus.
- Shrimp feed – Avanti Feeds: Negative, sentimentally as well as financially, as higher grain prices will directly hit gross profit.
- Shrimp processing – Apex Frozen Foods & Coastal Corporation – Positive, sentimentally and financially. The rise in grain prices has a direct impact on animal protein and hence, could increase the demand as well as prices of the same.



DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.