

## Globus Spirits Limited

July 04, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	294.00 (Enhanced from 146.95)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long Term / Short Term Bank Facilities	17.00 (Enhanced from 15.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
<b>Total Bank Facilities</b>	<b>311.00</b> <b>(₹ Three Hundred Eleven Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Globus Spirits Limited (GSL) takes into account the improvement in the financial performance of the company during FY22 (refers to the period April 1 to March 31) while maintaining healthy profitability margins and consequent improvement in the capital structure and debt protection metrics. The rating action also factors-in the increase in revenue potential attributable to increase in the installed capacity post successful commissioning of project at West Bengal in FY22.

The ratings further continue to draw strength from experienced promoter and management team of the company, its significant presence in the Country Liquor (CL) segment & also in the Bulk Alcohol (ENA and Ethanol) segment and experience in bottling for large Indian Made Foreign Liquor (IMFL) players and satisfactory capacity utilization in FY22.

The ratings, however, continues to remain constrained by project implementation risk, continued subdued performance of IMFL segment (own brand), volatility in the input prices with limited pricing power and highly regulated nature of Alcohol industry.

### Key Rating Sensitivities

#### Positive Factors – Factors that could lead to positive rating action/ upgrade

- Sustainable growth in scale of operations with Total Operating Income above Rs.3,000cr while maintaining operating margins (i.e. PBILDT) beyond 20% on a sustained basis.
- Turnaround in the financial performance of the IMFL segment (own brand) on a sustained basis
- Successful completion of the ongoing projects with company deriving the envisaged benefit from the project

#### Negative Factors – Factors that could lead to negative rating action/ downgrade

- Decline in operating margins below 15% on a sustained basis
- Delay in project implementation coupled with any substantial increase in the overall project cost
- Any un-envisaged incremental debt funded capital expenditure leading to significant deterioration in its capital structure and debt coverage indicators
- Any adverse regulatory changes having significant impact on GSL.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoter and management team

The main promoter, Shri A.K. Swarup (the MD of GSL), an IIM Kolkata alumni has over two decades of experience in alcohol & distillery industry. He is ably assisted by a group of experienced personnel having wide experience in the alcohol industry.

##### Significant presence in the Bulk Alcohol and Country Liquor segment (IMIL)

CL and Bulk Alcohol (ENA and Ethanol), together, contributed around 84% to TOI in FY22 of the company. IMIL/CL contributed maximum revenue to the turnover of GSL in FY22 and contributed around 43% (P.Y.: 42%) to the TOI of GSL in FY22 followed by Bulk Alcohol at 41% (P.Y.: 45%). Revenue from CL segment increased by around 32% in FY22 on the back of increase in sales volume by 19% and average sales realization by 12% in FY22. The growth in CL segment majorly contributed by Rajasthan Market attributable to good response from customer for its recently launched brand namely RML (Rajasthan Medium/made Liquor). GSL supplies CL in North Indian States, specifically, Rajasthan and Haryana where it has a strong market share of around 32% and 10%, respectively, in FY22. Furthermore, West Bengal CL market also witnessed growth in sales volume in FY22 over FY21. Thus, given the strong growth potential in the state, GSL plans to improve its market share through stretching of distribution channels which would remain a key rating monitorable.

Bulk Alcohol segment also witnessed y-o-y growth of around 18.5% in FY22 on the back of increase in sales volume by 11.7% due to increase in installed capacity and average sales realization by 6.5%. Ethanol Blending Program (EBP) of Government of India has created supply deficit in Bulk Alcohol segment which has led to sustenance of Bulk Alcohol prices at an elevated level. Also, GSL has supplied 5.20 crore litres of ethanol to Oil Marketing Companies (OMCs) in FY22 and earned total revenue of around Rs.283 crore during the said period.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Experience in bottling high quality IMFL to large IMFL players and ENA supplies to large IMFL players**

Apart from foraying into the IMFL market of its own, GSL manufactures IMFL brands for United Spirits Limited (USL) in its Haryana and Bengal Plant and also supplies ENA to large IMFL players like ABD, USL, Pernod, Radico and Beam. The company has a franchise bottling agreement with United Spirits Ltd (USL) for bottling of USL brands in the state of Haryana and West Bengal. Since the liquor industry is regulated by the government in terms of distribution, bottling contracts for the franchise is of strategic importance.

**Improvement in financial performance in FY22 with comfortable capital structure and debt coverage indicators**

During FY22, GSL reported operating income of Rs.1584 crore registering a y-o-y growth of 29% over FY21 on account of increase in sales volumes and average sales realizations in both CL and Bulk Alcohol segments. Sales volume increased in FY22 on the back of increase in installed capacity and robust demand for Bulk Alcohol. Further, the improved demand coupled with favourable demand-supply dynamics led to increase in average sales realization. Consequently, despite increase in input prices in H2FY22, PBILDT margins continued to remain at 21% in FY22 (P.Y.: 21%). Accordingly, PBILDT level increased by 29% in FY22 over FY21 and stood at Rs.329 crore. GCA also increased by around 31% in FY22 over FY21 and continued to remain comfortable at Rs.269 crore in FY22.

Capital structure of the company continues to remain comfortable with steady improvement in the overall gearing. Overall gearing of the company has improved in the last three financial years from 0.40x in FY20 to 0.23x in FY22 on the back of improved profitability which resulted in prepayment of debt and accretion of profit to the reserves. Furthermore, reduction in overall debt levels coupled with higher GCA led to improvement in the debt coverage indicators and TDGCA improved to 0.67x in FY22 (0.91x in FY21).

**Key Rating Weaknesses****Project Implementation Risk**

The company has successfully completed the capacity expansion project (140 KLPD) at West Bengal plant in FY22 and the project has also achieved COD in Jan'22. The company has further taken up capacity expansion project by 60 KLPD at West Bengal plant which will be entirely funded out of internal accruals and expected to achieve COD by end of Q3FY23.

Beside this, GSL has also started a greenfield project in Jharkhand having installed capacity of 5 crore litres per annum (140KLPD) at an estimated cost of Rs.140 crore (revised from Rs.130 crore) which will be partly funded through debt of Rs.90 crore (already sanctioned) and partly through internal accruals. The company has already expended around Rs.132 crore till May 31, 2022 and the project is expected to commence its commercial operation in Q2FY23 (revised from Q1FY23).

Moreover, the company is also planning to undertake two greenfield projects in Odisha and Uttar Pradesh having installed capacity of 200KLPD each at a cost of Rs.440 crore which will be funded through mix of debt and internal accruals. However, commencement of any subsequent project post Jharkhand is contingent upon the successful completion and stabilization of operation at Jharkhand plant. Thus, timely completion without substantial cost overrun and gradual stabilization of project will remain a key rating sensitivity.

**Subdued operational performance of the IMFL segment (own brands)**

GSL had entered into the Indian Made Foreign Liquor (IMFL) segment through its subsidiary company viz. Unibev Limited (UL) during FY17 with launch of three premium IMFL products namely Laffaire, Governor's Reserve and Oakton. The subsidiary has now been amalgamated with GSL. Operational performance of IMFL segment continued to remain weak since inception and has further moderated in FY22 with decline in sales volume to 12,500 cases from 27,567 cases. Improvement in operational performance of IMFL segment (own brand) will remain a key rating monitorable.

**Volatility in input prices with limited pricing power**

GSL uses grain as a raw material for its production. Since grains are seasonal products and its production depends on the vagaries of nature, the price of the same may vary depending on the production. Accordingly, GSL is required to store it for a period of around two months. On the other side, limited pricing flexibility for its final product (as most of the liquor market is controlled by government distribution channel) profitability of the company gets affected.

**Highly regulated nature of Alcohol industry**

The organized alcohol industry is dominated by very few large players. Further, high taxation and heavy regulation also make the industry dynamics complex. Government levies various duties like excise duty, sales tax, license fee, state-level import and export duty, bottling fee, welfare levy, assessment fee, franchise fee, turnover tax, surcharge etc. which varies from state to state. There is a ban on all forms of direct and indirect advertising for liquor in the country, leading to market players resorting to surrogate advertising. Moreover, the complexity of the industry further lies in the different types of distribution models followed in various states like government-controlled agencies, private distribution system and auction. The regulations at State levels are prone to frequent changes and be sudden and uncertain. The direction or timing of any regulatory changes being difficult to predict, industry is vulnerable to such unanticipated changes.

**Liquidity Position: Adequate**

Adequate liquidity characterized by comfortable cushion in accruals of Rs.269 cr. vis-à-vis repayment obligations of Rs.52 cr. (including prepayments of Rs.36 crore) in FY22 and moderate free cash and cash equivalents of Rs.76 Cr as on March 31, 2022. Its fund-based bank limits are utilized in the range of 51% only during last twelve (12) months ended March 31, 2022. Hence, its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

Going forward, the company has capex plan of Rs.65 crore in FY23 pertaining to West Bengal project of 60KLPD capacity, Jharkhand project of 200KLPD capacity which are to be funded through mix of debts and internal accruals. Thus, in spite of

capex plan, going forward, liquidity profile of the company is expected to remain adequate as it is expected that company would generate sufficient GCA to meet its debt repayment obligations as well as internally funded capex plan in FY23.

### Industry Outlook

India has a young demographic profile with a median age of 28 years and around 67% of the population is within the legal drinking age. These two indicators coupled with growing disposable incomes, increasing rural consumption, greater acceptance of social drinking and relatively lower per capita consumption, are all factors that make India one of top markets for global spirit and offer significant growth opportunities for the industry.

**Analytical approach:** Standalone.

Earlier CARE Ratings had taken a consolidated analytical approach for analysing GSL's credit profile. However, considering the merger of GSL with its subsidiary Unibev Limited (UL) pursuant NCLT approval in September 2021, CARE has considered the standalone analytical view now.

### Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### About the Company

Globus Spirits Limited (GSL), promoted by Shri Ajay Kumar Swarup of Delhi, is engaged in the business of manufacturing, marketing and sale of branded IMFL, IMIL and Bulk Alcohol comprising of Rectified Spirit and Extra Neutral Alcohol (ENA) and also involved in franchisee bottling to cater to renowned brand owners. GSL successfully operates four modern and fully integrated grain-based distilleries at Behror (Rajasthan), Samalkha (Haryana), Panagarh (West Bengal) and Bihar having a combined capacity of ~233 million litres per annum.

Brief Financials (₹ crore)	March 31, 2021 (A)^	March 31, 2022 (A)*	Q1FY23 (U/A)
Total operating income	1,224.38	1,584.38	NA
PBILDT	255.52	329.04	NA
PAT	140.82	187.25	NA
Overall gearing (times)	0.32	0.23	NA
Interest coverage (times)	13.57	28.78	NA

A: Audited; U/A: Unaudited; NA: Not Available; ^Consolidated results; \*Standalone results post-merger

**Status of non-cooperation with previous CRA:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	114.00	CARE A+; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	-	17.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	December, 2027	180.00	CARE A+; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	114.00	CARE A+; Stable	-	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (07-Jan-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (07-Jan-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	17.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (07-Oct-21)	1)CARE A; Stable / CARE A1 (08-Jan-21)	1)CARE A-; Stable / CARE A2+ (07-Jan-20)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (07-Jan-20)
5	Fund-based - LT-Term Loan	LT	180.00	CARE A+; Stable	-	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (07-Jan-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA****Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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