

## Globus Spirits Limited

October 07, 2021

### Ratings

| Facilities/Instruments                 | Amount (Rs. crore)   | Rating <sup>1</sup>  | Rating Action |
|--|--|--|---------------|
| Long Term Bank Facilities              | 146.95<br>(Reduced from 216.91)  | CARE A; Stable<br>(Single A; Outlook: Stable)                  | Reaffirmed    |
| Long Term / Short Term Bank Facilities | 15.00  | CARE A; Stable / CARE A1<br>(Single A; Outlook: Stable/ A One) | Reaffirmed    |
| Long Term Bank Facilities              | -  | -  | Withdrawn     |
| <b>Total Bank Facilities</b>           | <b>161.95</b><br><b>(Rs. One Hundred Sixty-One Crore and Ninety-Five Lakhs Only)</b> |  |               |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Globus Spirits Limited (GSL) continue to draw strength from experienced promoter and management team of the company, its significant presence in the Industrial Alcohol (ENA) and Country Liquor (CL) segment, experience in bottling for large Indian Made Foreign Liquor (IMFL) players, satisfactory capacity utilization, comfortable financial risk profile in FY21 (*refers to the period from April to March*) and Q1FY22 (*refers to the period from April to June*) marked by healthy operating margins and comfortable capital structure and debt coverage indicators. The ratings, however continues to remain constrained by continued loss in IMFL segment (own brand), project implementation risk, 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.2,500cr and 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 Industrial Alcohol (ENA) and Country Liquor segment (IMIL)

ENA and CL, together, contributed around 87% to the total operating income in FY21 of the company. ENA segment contributes maximum revenue to the turnover of GSL and contributed around 45% (P.Y.: ~46%) of the total operating income in FY21 followed by CL segment which contributes around ~42% (P.Y.: 42%) to the turnover of GSL in FY21. ENA revenues remained stable at around Rs.549 crore in FY21 (as against Rs.575 crore in FY20). Revenue from CL segment increased by around 26% in FY21 due to increase in sales volume and higher average realizations. The company supplies CL in North Indian States, specifically, Rajasthan and Haryana where it has a strong market share of ~30% and ~10%, respectively, in FY21.

The Haryana CL market (once a key market of GSL), experienced increase in sales volumes during FY21, primarily on account of curb in illegal sales as the state government has taken strict actions against illegal import of CL from nearby states. Further, in FY21, Rajasthan Market has also witnessed improvement in the sales volume and improvement in average sales realization on account of successful launch of RML which commands higher margin than other product of the bank.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

GSL entered the West Bengal CL Market by achieving COD for its ENA unit in February 2017 and has received good acceptance of its brand 'Goldee'. 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 sensitivity. Further, GSL has also been supplying ethanol to Oil Marketing Companies (OMCs).

#### **Experience in bottling high quality IMFL for large IMFL players**

Apart from foraying into the IMFL market of its own, GSL manufactures IMFL brands for established players in the industry like for Allied Blenders & Distillers (ABD) at its Rajasthan plant. The company also has a franchise bottling agreement with United Spirits Ltd (USL) for bottling of Bagpiper Whisky 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 with comfortable gearing ratios and debt coverage indicators in FY21 and Q1FY22**

During FY21, GSL (consolidated) reported operating income of Rs.1228 crore registering a y-o-y growth of 5% over FY20 which is mainly driven by growth in consumer segment i.e. IMIL due to increase in the average sales realizations in this segment coupled with increase in the sales volumes. However, PBILDT margin improved significantly and nearing doubled to 21% in FY21 from 11% in FY20. This improvement is mainly due to decline in raw material prices by around 25% in FY21 over FY20 which resulted in decline in share of raw materials to the total cost of production and stood at 52% in FY21 from 63% in FY20. While raw material prices declined, the realizations remained intact due to stable prices of Ethanol procurement by Government which also led to firm prices of ENA.

Accordingly, GCA also increased by 123% in FY21 over FY20 and continued to remain comfortable at Rs.206 crore in FY21 (Rs.93 Cr. in FY20) as against the scheduled debt repayment obligations of Rs.20 crore in FY21. Increased PBILDT level and largely stable finance cost has led to improvement in interest coverage ratio to 13.75x in FY21 from 5.41 times in FY20.

Capital structure of the company continues to remain comfortable with steady improvement in the overall gearing ratios, which stood at 0.32x as on March 31, 2021, due to consistent increase in net-worth which is attributable to the significant improvement in the financial performance of the company over the last three years supported by gradual repayment of term debts. Further reduction in overall debt levels coupled with higher GCA led to significant improvement in the debt coverage indicators and TDGCA falls below unity (0.91x in FY21 vis-à-vis 1.96x in FY20).

#### **Key Rating Weaknesses**

##### **Project Implementation Risk**

The company has undertaken a project to increase its installed capacity at West Bengal Plant by 5 crore litres per annum (140KLPD) at revised cost of Rs.110 crore (revised from of Rs.95 crore) which was planned to be funded through prudent mix of debt and internal accruals. Out of Rs.95 crore, Rs.40 crore would be financed out of debt (already sanctioned) and rest would be financed out of internal accruals. However, GSL did not utilize the debt fund for capex and used internal accruals for entire capex. The project is expected to commence its commercial operation from October, 2021.

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.130 crore which will be partly funded through debt of Rs.70 crore (already sanctioned) and partly through internal accruals. The company has already expended around Rs.25 crore till August 31, 2021 and the project is expected to commence its commercial operation in Q1FY23.

Moreover, the company is also planning to undertake another greenfield project in FY23 in Odisha having installed capacity of 5 crore litres per annum (140KLPD) at a cost of Rs.130 crore which will be entirely funded through internal accruals. However, construction activities in Odisha will commence after completion of Jharkhand project and the project is expected to start commercial operation by October, 2023. Thus, timely completion without cost overrun and gradual stabilization of project will remain a key rating sensitivity.

##### **Moderation in the financial 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. The subsidiary has now been amalgamated with GSL. Financial performance of UL continues to remain weak since inception and has further moderated in FY21 with losses amounting to Rs.8.50 crore in FY21. Further, till September-2021, UL has launched three new brands namely Laffaire, Governor's Reserve and Oakton and expanded its footprints in nine (9) states.

##### **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 is marked by sufficient cushion in accruals (GCA of Rs.206 crore in FY21) against scheduled debt repayment obligations of Rs.20 crore and moderate cash and bank balance of Rs.58 crore in FY21. Its fund-based bank limits are utilized to the extent of 23% only in last 12 months ending May 2021. 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.158 crore in FY22 partly funded through debts (i.e. Rs.70 crore) and partly through internal accruals. Nevertheless, 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 FY22.

### Industry Outlook

Temporarily, due to COVID-19 pandemic and its fall out, discretionary spending plummeted to new lows which led to decline in demand of liquor. However, over the medium to long term, demand for liquor is expected to remain firm as 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:** Consolidated

### Applicable Criteria

[Policy on default recognition](#)

[Rating Methodology - Consolidation](#)

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

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

[Rating Outlook and Credit Watch](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - 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 ~161 million litres per annum.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|------------------------------|----------|----------|
| Total operating income       | 1,169.84 | 1,227.80 |
| PBILDT                       | 127.53   | 258.94   |
| PAT                          | 49.70    | 140.82   |
| Overall gearing (times)      | 0.40     | 0.32     |
| Interest coverage (times)    | 5.41     | 13.75    |

A: Audited

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

**Any other information:** Not Applicable

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

**Covenants of rated instrument / facility:** 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 (Rs. crore) | Rating assigned along with Rating Outlook |
|-------------------------------|------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit   | -    | -                | -           | -             | 69.00                         | CARE A; Stable                            |
| Fund-based - LT-Term Loan     | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - LT/ ST-BG/LC | -    | -                | -           | -             | 15.00                         | CARE A; Stable / CARE A1                  |
| Fund-based - LT-Term Loan     | -    | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT-Term Loan     | -    | -                | -           | December 2023 | 77.95                         | CARE A; Stable                            |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |                          | Rating history                            |   |   |  |
|---------|--|-----------------|--------------------------------|--------------------------|---|---|---|--|
|         |  | Type            | Amount Outstanding (Rs. crore) | Rating                   | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019  |
| 1       | Fund-based - LT-Cash Credit            | LT              | 69.00                          | CARE A; Stable           | -   | 1)CARE A; Stable (08-Jan-21)              | 1)CARE A-; Stable (07-Jan-20)             | 1)CARE A-; Positive (15-Feb-19)            |
| 2       | Fund-based - LT-Term Loan              | LT              | -                              | -                        | -   | 1)CARE A; Stable (08-Jan-21)              | 1)CARE A-; Stable (07-Jan-20)             | 1)CARE A-; Positive (15-Feb-19)            |
| 3       | Non-fund-based - LT/ ST-BG/LC          | LT/ST*          | 15.00                          | CARE A; Stable / CARE A1 | -   | 1)CARE A; Stable / CARE A1 (08-Jan-21)    | 1)CARE A-; Stable / CARE A2+ (07-Jan-20)  | 1)CARE A-; Positive / CARE A2+ (15-Feb-19) |
| 4       | Fund-based - LT-Term Loan              | LT              | -                              | -                        | -   | 1)CARE A; Stable (08-Jan-21)              | 1)CARE A-; Stable (07-Jan-20)             | 1)CARE A-; Positive (15-Feb-19)            |
| 5       | Fund-based - LT-Term Loan              | LT              | 77.95                          | CARE A; Stable           | -   | 1)CARE A; Stable (08-Jan-21)              | 1)CARE A-; Stable (07-Jan-20)             | 1)CARE A-; Positive (15-Feb-19)            |

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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