Globus Spirits Limited

January 08, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	275.61 (enhanced from Rs.225.06 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Long Term/Short Term Bank Facilities	15.00	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/ A One)**	**Revised from CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)**
Total	**290.61 (Rs. Two Hundred Ninety crore and Sixty One Lakhs Only)**		

Details of instrument/facilities in Annexure-1; for classification of instruments/facilities please refer to Annexure-3

Detailed description of the key rating drivers

The revision in the rating assigned to the bank facilities of Globus Spirits Limited (GSL) takes into account the improvement in the financial risk profile of the company during FY20 and H1FY21 marked by healthy operating margins and comfortable capital structure and debt coverage indicators.

The ratings 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 and satisfactory capacity utilization.

The ratings, however continues to remain constrained by project implementation risk, volatility in the input prices with limited pricing power and highly regulated nature of Alcohol industry. The rating also factors in the proposed merger of its subsidiary company (viz. Unibev Limited) and the possible impact of the same on the credit risk profile of GSL.

Positive Rating Sensitivity

- *Sustainable growth in scale of operations with improvement in operating margins (i.e. PBILDT) beyond 15% and Return on Capital Employed (ROCE) beyond 18%*
- *Turnaround in the financial performance of the IMFL segment (own brand) currently under Unibev Ltd.(proposed to be merged with GSL, awaiting regulatory approvals) on a sustained basis*
- *Sustained growth in the sales volume of CL in the key markets*

Negative Rating Sensitivity

- *Decline in operating margins below 10% 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 86% to the total operating income in FY20 of the company. ENA segment contributes maximum revenue to the turnover of GSL and contributed around 46% (P.Y.: ~40%) of the total operating income in FY20 followed by CL segment which contributes around ~40% (P.Y.: 47%) to the turnover of GSL in FY20. ENA revenues grew by 35% to reach ~Rs.575 crore in FY20 (as against Rs.427 crore in FY19) on account of growth in the volumes by ~18% coupled with increase in sales realization by around 14% in FY20. Revenue from CL segment remained stable in FY20, despite decline in sales volume, largely supported by increase in the sales realization. The company supplies CL in North Indian States, specifically, Rajasthan and Haryana where it has a strong market share of ~29% and ~8%, respectively, in FY20.

The Haryana CL market (once a key market of GSL), experienced low sales volumes during the last three fiscals, primarily due to reduction in market size for branded CL and smaller market being made available for the same number of players which resulted in decline in the overall sales volume. Further, in FY20, there has also been decline in Rajasthan Market on account of change in the State Government Policy which has made mandatory for CL sellers of the state to procure

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

minimum 30% of total volume sales from Rajasthan State Ganganagar Sugar Mills Limited (RSGSM). This led to decline in market for private players in the state.

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). Recently GSL has bagged contract with IOCL and BPCL to supply ethanol during the period of December, 2020 – November, 2021 from the Bihar unit and Haryana unit and expects to garner revenue of approx. Rs.176 crore during the said period.

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 FY20 and H1FY21

During FY20, GSL (on consolidated level) accounted for a Total Operating Income (TOI) of Rs.1168.84 crore thereby registering a healthy growth of around 18% over FY19 (Rs.992.39 crore) primarily driven by growth in manufacturing segment i.e. ENA due to increase in the average sales realizations in this segment coupled with increase in the sales volumes. PBILDT margin improved to 10.89% (Rs.127.37 crore) in FY20 from 9.46% (Rs.93.83 crore) in FY19 mainly due to increase in the average sales realization of ENA and country liquor coupled with better absorption of overhead expenditure incidental to higher capacity utilization. Accordingly, GCA improved and continued to remain comfortable at Rs.92.06 crore in FY20 (Rs.65.04 crore in FY19) as against the principal repayment of Rs.29.11 crore in FY20. Interest coverage ratio improved to 5.41 times in FY20 from 3.57 times in FY19.

Despite the macroeconomic headwinds and operational challenges pursuant to the Covid-19 pandemic the company has achieved a total income of Rs.562 crore in H1FY21 (H1FY20: Rs.570.65 crore). PBILDT margin has improved to 18.44% during H1FY21 from 10.89% in FY20 mainly on account of moderation in raw material prices and partly supported by firm ENA prices. Accordingly, PAT and GCA have increased to Rs.51.89 crore and Rs.79.98 crore in H1FY21 from Rs.17.89 crore and Rs.39.81 crore in H1FY20, respectively.

Capital structure of the company continues to remain comfortable with improvement in the overall gearing ratios to 0.40x as on March 31, 2020 from 0.58x as on March 31, 2019. Further, reduction in overall debt levels coupled with higher GCA led to significant improvement in the debt coverage indicators. Accordingly, total debt/GCA improved to 1.96x as on March 31, 2020 as against 3.54x as on March 31, 2019. Further the overall gearing and TD/GCA improved to 0.35x and 1.10x respectively as on Sep.30, 2020.

Key Rating Weaknesses

Project Implementation Risk

The company has undertaken a project to increase its installed capacity at West Bengal Plant by around 5 crore litre of ENA per annum (140KLPD) at an estimated cost of Rs.95 crore which would be funded through mix of debt and internal accruals. Out of Rs.95 crore, Rs.40 crore (already sanctioned) would be financed out of debt and rest i.e. Rs.55 crore would be financed out of internal accruals. Further, the project is expected to be completed by end of Q1FY22. Till Dec.28, 2020, the company has only expanded around 17% of total project cost. Thus, timely completion and gradual stabilization of project will remains 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 is however scheduled to amalgamate with GSL w.e.f. April 01, 2019; subject to regulatory approvals. Financial performance of UL continues to remain weak since inception and has further moderated in FY20 with losses amounting to Rs.9.61 crore from Rs.6.85 crore in FY19. Nevertheless, sales volume has increased by around 68% to 31,111 cases in FY20 from 19,336 cases in FY19. Further, till October-2020, 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 healthy accruals (GCA of Rs.92.60 crore) against repayment obligations of Rs.29.11 crore in FY20. Further, the company has cash and cash equivalents of around Rs.42.51 crore and unutilized working capital limits of Rs.29.0 crore (approx.) as on Sep.30, 2020.

Going forward, liquidity profile of the company is expected to remain adequate on the back of sufficient cushion in accruals in FY21 vis-à-vis repayment obligations of Rs.20.29 crore in FY21.

The company had availed the moratorium/deferment on repayment of term debt/ interest payment on Cash Credit limits under RBI's Covid-19 regulatory relief package.

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

For arriving at the ratings of GSL, CARE has considered the consolidated financials of GSL as the Board of Directors of GSL, vide intimation dated March 12, 2020, has approved the scheme of amalgamation with its subsidiary viz., Unibev Limited (UL) w. e. f. from April 01, 2019.

However, standalone approach, while factoring-in exposure (investment and loans & advances) to group company UL, was considered during the last review.

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector
Criteria for short term instruments
Complexity Level of Rated Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology- Consolidation

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)- Consolidated	FY19 (A)	FY20 (A)
Total operating income	992.39	1169.84
PBILDT	93.83	127.37
PAT	23.72	49.70
Overall gearing (times)	0.58	0.40
Interest coverage (times)	3.57	5.41

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	Dec-2023	49.70	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	15.00	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	Dec-2023	9.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	Dec-2023	147.91	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	69.00	CARE A; Stable	-	1)CARE A-; Stable (07-Jan-20)	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)
2.	Fund-based - LT-Term Loan	LT	49.70	CARE A; Stable	-	1)CARE A-; Stable (07-Jan-20)	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	15.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (07-Jan-20)	1)CARE A-; Positive / CARE A2+ (15-Feb-19)	1)CARE A-; Stable / CARE A2+ (07-Dec-17) 2)CARE A; Negative / CARE A1 (19-Apr-17)
4.	Fund-based - LT-Term Loan	LT	9.00	CARE A; Stable	-	1)CARE A-; Stable (07-Jan-20)	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)
5.	Fund-based - LT-Term Loan	LT	147.91	CARE A; Stable	-	1)CARE A-; Stable (07-Jan-20)	1)CARE A-; Positive (15-Feb-19)	1)CARE A-; Stable (07-Dec-17) 2)CARE A; Negative (19-Apr-17)

Annexure-3: Complexity

Sr. No.	Name of the 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Abhishek Khemka
Group Head Contact no.-(033) 4018 1610
Group Head Email ID- **abhishek.khemka@careratings.com**

Business Development Contact
Name: Lalit Sikaria
Contact no. : 033 – 4018 1607
Email ID: **lalit.sikaria@careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**