Globus Spirits Limited

July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	470.77 (Enhanced from 294.00)	CARE A+; Stable	Reaffirmed
Long-term/Short-term bank facilities	42.00 (Enhanced from 17.00)	CARE A+; Stable/CARE A1+	Reaffirmed
Short-term bank facilities	40.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Globus Spirits Limited (GSL) takes into account the satisfactory financial performance of the company during FY23 (refers to the period from April 1 to March 31) and the comfortable capital structure and debt protection metrices. The total operating income (TOI) of the company grew by around 33% y-o-y in FY23 on the back of an increase in the sales volumes of bulk alcohol (extra neutral alcohol [ENA] and ethanol) attributable to the capacity addition and sustained increase in the average sales realisation in both the segments, namely, consumer and manufacturing. Nevertheless, the profitability margins witnessed moderation in FY23 due to higher input prices, ie, higher grain and fuel prices. The rating also factors in the increase in revenue potential attributable to an increase in the installed capacity post the successful commissioning of the project at Jharkhand in FY23.

The ratings further continue to draw strength from the experienced promoter and management team of the company, its significant presence in the country liquor (CL) segment and also in the bulk alcohol (ENA and ethanol) segment and experience in bottling for large Indian-made foreign liquor (IMFL) players, and satisfactory capacity utilisation in FY23 despite capacity addition.

The ratings, however, continue to remain constrained by project implementation risk, continued subdued performance of the IMFL segment (own brand) albeit improvement in FY23, volatility in input prices with limited pricing power, and the highly regulated nature of the alcohol industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable growth in the scale of operations with total operating income (TOI) above ₹3,000 crore while maintaining operating margins (ie 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 the company deriving the envisaged benefit from the project.

Negative factors

- Decline in operating margins below 12% on a sustained basis.
- Delay in project implementation coupled with any substantial increase in the overall project cost.
- Any un-envisaged incremental debt-funded capex, leading to a significant deterioration in its capital structure and debt coverage indicators.
- Any adverse regulatory changes having a significant impact on GSL.

Analytical approach: Standalone

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The 'Stable' outlook assigned to the long-term rating is based on the ability of the company to maintain its market position in country liquor as also in the bulk alcohol (ENA and ethanol) segment and the strong financial risk profile, marked by an increasing scale of operations along with steady profitability levels while maintaining its capital structure and debt protection metrics at around the current levels. CARE Ratings Limited (CARE Ratings) also notes that the ongoing or proposed capex is not expected to result in any major deterioration in the credit risk profile of the group over the medium term.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter and management team

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

Satisfactory capacity utilisation in FY23

The operational performance of the company continued to remain satisfactory in FY23, marked by steady high capacity utilisation (CU) in the last three financial years despite an increase in the installed capacity. On an absolute level, the actual production of bulk alcohol (ENA/ethanol) has increased by 28% y-o-y and stood at 20.8 crore litre in FY23, attributable to the completion of the greenfield project in Jharkhand. The capacity utilisation is expected to remain high going forward, despite new capacities coming in, on the back of robust demand from user industries.

Significant presence in the bulk alcohol and CL segment

Bulk alcohol (ENA and ethanol) and CL together contributed around 85% to the TOI of the company in FY23. The bulk alcohol segment contributes the maximum revenue to the turnover of GSL and contributed around 51% (PY: around 41%) of the TOI in FY23, followed by the CL segment, which contributed around 34% (PY: 43%) to the turnover of GSL in FY23. The revenue from bulk alcohol increased by 65% y-o-y in FY23 to ₹1,077 crore on the back of an increase in sales volume by 58% attributable to capacity addition and increase in average sales realisation. The Ethanol Blending Programme (EBP) of the Government of India (GoI) has created a supply deficit of ENA, which has led to a sustenance in higher ENA prices, marked by an increase in ENA prices by ₹8 per bulk litre in FY23 over FY22. Also, GSL has supplied 10.3 crore litres of ethanol to oil marketing companies (OMCs) in FY23 and earned a total revenue of around ₹583 crore during the said period.
Despite a decline in the sales volume of CL, the revenue from CL largely remained steady, at around ₹709 crore in FY23 on the back of an increase in the average sales realisations. The company supplies CL in Rajasthan, Haryana, and West Bengal. GSL has a strong market share in Rajasthan and Haryana. In addition to this, the company also has a presence in the West Bengal CL market. Given the strong growth potential in West Bengal, GSL plans to improve its market share through the stretching of distribution channels, which will remain a key rating monitorable.

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 plants and also supplies ENA to large IMFL players like ABD, USL, Pernod, Radico and Beam. The company has a franchise bottling agreement with USL for the bottling of USL brands in the states of Haryana and West Bengal. GSL also does franchise bottling for Bacardi brands from its plant located in West Bengal. Since the liquor industry is regulated by the government in terms of distribution, bottling contracts for the franchise is of strategic importance.

Satisfactory financial performance with comfortable capital structure and debt coverage indicators in FY23

During FY23, GSL reported an operating income of ₹2,110 crore, registering a year-on-year growth of 33% over FY22 on the back of an increase in the sales volumes of bulk alcohol by 58%, attributable to capacity addition and a sustained increase in the average sales realisation in both the segments, namely, consumer and manufacturing. However, despite an increase in the scale of operations and average sales realisations, the PBILDT margins moderated by 910 bps to around 12% due to higher input prices, ie, increase in grain and fuel prices, along with packing materials. Accordingly, the absolute PBILDT decreased by 25% in FY23 over FY22 and stood at ₹246 crore. The lower PBILDT coupled with higher interest charge led to a decline in gross cash accruals (GCA) by around 26% in FY23 over FY22 but remained comfortable at ₹200 crore. Moderation trends in the PBILDT margins were reversed in Q4FY23 as raw material prices started softening and the margins are expected to sustain at similar levels in the near term.

The capital structure of the company continues to remain comfortable with an overall gearing of 0.33x as on March 31, 2023. Also, the debt coverage indicators, marked by interest coverage and total debt (TD)/GCA remained satisfactory at 14.90x and 1.45x, respectively, as on March 31, 2023. Going forward, even though the company has capex plans, which will be partly funded by debt, the capital structure is expected to remain range bound.

Key rating weaknesses

Project implementation risk

The company has successfully achieved the commercial operations date (COD) for its greenfield project having an installed capacity of 140 kilolitre per day (KLPD) in Jharkhand during Q2FY23. The company has further taken up a capacity expansion project by 60 KLPD at the West Bengal and Jharkhand plants, which will be entirely funded out of internal accruals and are expected to achieve COD in Q2FY24. In addition to this, the company has also taken up a bottling plant project in Uttar Pradesh, which will be entirely funded out of internal accruals and is expected to be completed by October 2023.

Besides, GSL has also undertaken a greenfield project in Odisha having an installed capacity of 7 crore litres per annum (200 KLPD) at an estimated cost of ₹160 crore, which will be partly funded through a debt of ₹120 crore and partly through internal accruals. Construction activities at the Odisha plant is expected to start in Q3FY24. Land allocation for the project has been completed.

Also, the company is planning to undertake another greenfield project in Uttar Pradesh having an installed capacity of 200 KLPD, which will be funded through a mix of debt and internal accruals. Thus, the timely completion without substantial cost overruns and gradual stabilisation of Odisha project will remain a key rating sensitivity.

Subdued operational performance of the IMFL segment (own brands), albeit improvement in FY23

GSL had entered into the IMFL segment through its subsidiary company, viz, Unibev Limited (UL) during FY17 with the launch of three premium IMFL products, namely, Laffaire, Governor’s Reserve, and Oakton. The subsidiary has since been amalgamated with GSL w.e.f. April 01, 2021. The operational performance of the segment, although weak, has witnessed improvement in FY23, marked by an increase in sales volume to 0.21 million cases from 0.02 million cases in FY22. Accordingly, the revenue from IMFL grew to ₹37 crore in FY23 from ₹4.70 crore in FY22. However, the IMFL segment continued to incur losses in FY23, as fixed cost was higher than revenue. Nonetheless, based on the recent improvement in the performance of the IMFL segment, the management has articulated that the segment will be able to achieve break-even in the next two to three years.
Improvement in operational and financial 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 vag aries 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, on account of the limited pricing flexibility for its final product (as most of the liquor market is controlled by government distribution channels), the profitability of the company is affected.

Highly regulated nature of the alcohol industry

The organised alcohol industry is dominated by a few large players. Furthermore, the 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 are sudden and uncertain. The direction or timing of any regulatory changes being difficult to predict, the industry is vulnerable to such unanticipated changes.

Liquidity: Adequate

The adequate liquidity is characterised by the comfortable cushion in accruals of ₹200 crore vis-à-vis repayment obligations of ₹17 crore in FY23 and moderate free cash and cash equivalents of ₹87 crore as on March 31, 2023. Furthermore, the operating cycle of the company remained stable in FY23 mainly on account of higher credit windows provided by creditors owing to the strong bargaining power of the company. However, due to a change in raw material purchasing from the open market to the Food Corporation of India (FCI), the requirement of working capital is expected to increase, as the company has to purchase grains from FCI on an immediate payment model, unlike the open market, wherein, the GSL used to get a credit window. Moreover, an increase in the working capital limits provides cushion to the liquidity position of the company as its unutilised bank lines to the extent of 25-30% are adequate to meet its incremental working capital needs over the next one year.

Going forward, in spite of the capex plan, the liquidity profile of the company is expected to remain adequate, as it is expected that the company would generate sufficient GCA to meet its debt repayment obligations as well as internally funded capex plan in FY24.

Environment, social, and governance (ESG) risks

CARE Ratings believes that GSL's environment, social, and governance (ESG) profile supports its strong credit risk profile.

Environmental:

The alcohol sector is exposed to the environmental risk, primarily due to the manufacturing process being waste intensive.

- GSL has adopted a holistic approach towards Net Zero pollution, and it involves its business and operational impact and strategy.
- Air pollution control through collection, purification, and sale of CO_2. All Carbon dioxide generated in fermentation is collected, purified, and sold to buyers including soft drink manufacturers and others thus abating air pollution.
- Proper disposal of all effluent related products such as spent grain and fly ash. Spent Grain is being sold as cattle feed and fly ash/ash disposed-off for land fill or for brick making.
- Water is re-circulated to process with or without treatment thus there is no discharge of any wastewater stream.

Social:

GSL also actively promotes the cause of education in the country by promoting education, including special education and employment enhancing vocation skills.

Governance:

The company has been practicing the principles of fair, ethical and transparent governance practices over the years and lays strong emphasis on transparency, accountability, honesty, integrity and ethical behaviour.

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.

The government's initiative to blend 20% ethanol with petrol by 2025 as part of the Ethanol Blending Programme and the current production capacity of ethanol as on November 2022 being close to 947 crores litres with a targeted reach to 1,500 crore litres, provide ample opportunities for business houses, which can be seen with the growing capacity and the various businesses diversifying into ethanol production seeing the scope. Although the prospects for the ethanol market look positive with the growing demand, the entry of various companies may impact the operating margins of players in the long term and the roadmap post 2025 will remain a key monitorable.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Beverages	Breweries & Distilleries

GSL, promoted by Ajay Kumar Swarup of Delhi, is engaged in the business of manufacturing, marketing, and the sale of branded IMFL, IMIL, and bulk alcohol comprising rectified spirit and ENA and also involved in franchisee bottling to cater to renowned brand owners. GSL successfully operates five modern and fully integrated grain-based distilleries at Behror (Rajasthan), Samalkha (Haryana), Panagarh (West Bengal), Vaishali (Bihar), and Baharagora (Jharkhand) having a combined capacity of around 268 million litres per annum.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,584.38	2,109.66
PBILDT	329.04	246.18
PAT	187.25	122.20
Overall gearing (times)	0.23	0.33
Interest coverage (times)	28.78	14.89

A: Audited. Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	225.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	December, 2027	245.77	CARE A+; Stable
Fund-based - ST-Term loan	-	-	-	September, 2023	40.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	42.00	CARE A+; Stable / CARE A1+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	225.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Jul-22)	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (08-Jan-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A; Stable (08-Jan-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	42.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jul-22)	1)CARE A; Stable / CARE A1 (07-Oct-21)	1)CARE A; Stable / CARE A1 (08-Jan-21)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Oct-21)	1)CARE A; Stable (08-Jan-21)

5	Fund-based - LT-Term Loan	LT	245.77	CARE A+; Stable	-	1)CARE A+; Stable (04-Jul-22)	1)CARE A; Stable (07-Oct-21)	1)CARE A; Stable (08-Jan-21)
6	Fund-based - ST-Term loan	ST	40.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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