Globus Spirits Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	620.15 (Enhanced from 470.77)	CARE A+; Stable	Reaffirmed
Long-term / short-term bank facilities	55.00 (Enhanced from 42.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Globus Spirits Limited (GSL) factors in increase in scale of operations despite moderation in profitability margins in FY24 (refers to April 01 to March 31) and comfortable capital structure and debt protection metrices. The company's total operating income (TOI) grew by around 14% y-o-y in FY24 due to increase in 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 manufacturing [extra neutral alcohol (ENA) and ethanol], and consumer [Country Liquor (CL) and Indian-made foreign liquor (IMFL)] segments. The company's profitability margins further contracted to 7.09% in FY24 from 11.67% in FY23 due to sharp inflation in the cost of raw material prices such as rice and disruption of operations at West Bengal and Jharkhand plant attributable to sudden stoppage of supply rice by Food Corporation of India (FCI).

Ratings further continue to draw strength from the experienced promoter and management team of the company, its significant presence in the CL segment and in the ENA and ethanol segment and experience in bottling for large IMFL players, and satisfactory capacity utilisation in FY24 despite capacity addition. The rating also factors in completing major ongoing capital expenditure (capex) except proposed capex amounting to ₹100 crore, entirely funded through debt, for setting up of distillery plant having installed capacity of 60 kilo litre per day (KLPD) in Uttar Pradesh and Odisha ethanol project being currently on hold.

However, ratings continue to remain constrained by IMFL segment's continued subdued financial performance (own brand) amid improvement in volume sales and revenue witnessed in FY24, profitability contingent on input price volatility with limited pricing power, modest project implementation risk, and the highly regulated alcohol industry.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to one of the short-term bank facilities (term loan) of GSL with immediate effect. This action has been taken as the limit has been merged with existing cash credit limit and become sub-limit of cash credit limit based on latest sanction letter shared by the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainably growing scale of operations with TOI above ₹3,000 crore while maintaining operating margins (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) beyond 20% on a sustained basis.
- Turnaround in IMFL segment's financial performance (own brand) on a sustained basis.

Negative factors

- Declining operating margins below 12% on a sustained basis.
- Delaying project implementation and substantial increase in the overall project cost.
- Un-envisaged incremental debt-funded capex, leading to significantly deteriorating capital structure and debt coverage indicators.
- 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 company's ability to maintain its market position in CL, and in bulk alcohol (ENA and ethanol) segment and steady financial risk profile, marked by an increasing scale of operations while maintaining its capital structure and debt protection metrics at current levels. CARE Ratings also notes that ongoing or proposed capex is not expected to result in major deterioration in the company's credit risk profile in the medium term.

Detailed description of key rating drivers

Key rating strengths

Experienced promoter and management team

The main promoter and IIM-Kolkata alumni, AK Swarup (the MD of GSL) 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 FY24

The company's operational performance continued to remain satisfactory in FY24, marked by steady high capacity utilisation (CU) in the last three financial years despite an increase in installed capacity. On absolute level, actual production of bulk alcohol has increased by 21% to 25.24 crore liters of bulk alcohol in FY24 over FY23 attributable to completing expansion projects at Jharkhand plant and at West Bengal plants. Capacity utilisation is expected to remain high, going forward, condisering robust demand from user industries.

Significant presence in bulk alcohol and CL segment

Bulk alcohol (ENA and ethanol) and CL together contributed around 87% to the company's TOI in FY24. The bulk alcohol segment contributed maximum revenue to the turnover of GSL and contributed around 56% (PY: around 51%) of TOI in FY24, followed by the CL segment, which contributed around 31% (PY: 34%) to GSL's turnover in FY24. Revenue from bulk alcohol increased by 18% y-o-y in FY24 to ₹1,318 crore considering an increase in sales volume by 14% 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. GSL has supplied 15.4 crore litres (PY: 10.3 crore litres) of ethanol to oil marketing companies (OMCs) in FY24 and earned a total revenue of around ₹961 crore (PY: ₹583 crore) in the said period.

CL revenue largely remained steady, at around ₹742 crore in FY24 considering an increase in average sales realisations. The company supplies CL in Rajasthan, Haryana, and West Bengal. GSL has a strong market share in Rajasthan and Haryana. The company also has presence in the West Bengal CL market.
Volume sales remained flat in FY24 in line with industry trend after decline in FY23 considering introduction of quota system in Rajasthan, under which, retailers must procure at least 25% of its total volume sale from Rajasthan State Ganganagar Sugar Mills Limited. This resulted in contraction of the overall market space for private players in the Rajasthan CL market. This quota system has been abolished. Now, it is expected that the company will witness volume growth in FY25 and onward.

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 supplies ENA to large IMFL players such as ABD, USL, Pernod, Radico and Beam. The company has a franchise bottling agreement with USL for the bottling of USL brands in Haryana and West Bengal. GSL also does franchise bottling for Bacardi brands from its plant 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

In FY24, GSL reported TOI of ₹2415 crore registering a y-o-y growth of 14% over FY23 (₹2110 crore) due to increase in revenue from industrial alcohol by 14% attributable to capacity addition and sustained increase in average sales realization in both segments namely consumer and manufacturing.
However, despite increase in the scale of operation and average sales realisations, operating margins moderated in the full year FY24 due to sharp inflation in the cost of raw material prices such as rice and disruption of operations at West Bengal and Jharkhand plant attributable to sudden stoppage of supply rice by Food Corporation of India (FCI). The IMFL segment continued to incur losses amid improvement in volume sales and revenue witnessed in FY24.

Moderation trends in the PBILDT margins is expected to reverse in ensuing quarters as the management has taken steps such as use of maize as raw material for ethanol production instead of rice in Bihar, Jharkhand, and West Bengal where maize is available in reasonably good quantity and at a lower price of around ₹2200-2400/quintal. In Rajasthan, the company has secured a price increase of ₹40 per case in value plus segment and ₹20 per case in value segment, which would aid to profitability.

The company's capital structure continues to remain comfortable with overall gearing 0.34x as on March 31, 2024, considering repayment of debt and accretion of profit to the reserves. However, total debt levels increased in FY24 over FY23 considering higher working capital utilisation of working capital limits as the company has to stock inventory of raw materials for higher days post discontinuing rice supply by Food Corporation of India (FCI) and increase in scale of operation, which requires higher inventory levels.

Debt coverage indicators marked by interest coverage and total debt to gross cash accruals (TD/GCA) remained satisfactory at 6.40x and 2.42x as on March 31, 2024, respectively. Even though the company has capex plans entirely funded by debt, the capital structure is expected to remain below 0.50x in FY25 going forward.

The audit report for FY24 has been qualified by the auditor based on tax demand of ₹56.49 crore (including interest) post search and seizure operation concluded by Income Tax Department (ITD) pertaining to assessment year 2014-15 to 2023-24. However, the management has articulated that qualification was mainly due to paucity of time to assess the tax additions per assessment orders, which was received in the first week of April 2024. The management has stated that the company has already paid around ₹30.43 crore (includes self-assessment tax of around Rs.5 crore and Rs.25.43 crore paid under protest) of the actual demand of ₹40.93 crore (excluding interest) under protest after filling an appeal under section 246A of Income Tax Act 1961 for all assessment years covered by order. The company has also appointed an independent legal firm to review these disallowances. While the outcome is awaited, based on legal advice and the company's preliminary assessment, the management has articulated that no material adjustments are needed with respect to this matter in financial results.

Key rating weaknesses

Modest project implementation risk

The company has successfully completed and achieved the commercial operations date (COD) for its expansion project having capacity of 60 kilolitre per day (KLPD) each in Jharkhand and West Bengal in H1FY24. The company has also completed the bottling plant project in Uttar Pradesh, which was entirely funded from internal accruals and completed in early Q3FY24. The company has also undertaken another greenfield project in Uttar Pradesh having an installed capacity of 60 KLPD, which will be funded entirely through debt of ₹100 crore and expected to be completed by end of FY26. Thus, timely completion without substantial cost overruns will remain a key rating sensitivity.

The management has articulated that Odisha project for Ethanol having proposed installed capacity of 200 KLPD has been kept currently on hold. Hence, there will not be any debt draw down pertaining to this project in the near term.

Subdued financial performance of IMFL segment (own brands), despite growth in volume sale witnessed in FY24

GSL had entered the IMFL segment through its subsidiary company, Unibev Limited (UL) in FY17. The subsidiary has since been amalgamated with GSL on April 01, 2021.
Currently, the IMFL has portfolio of seven brands across Whisky, Gin, Vodka and Rum. Brands are Governor's Reserve, Oakton, Snoski, Terai, Mountain Oak, 7th Heaven, among others. Brothers & Co and GR8 times have been recently launched. The segment's operational performance, although weak, improved in FY24, marked by an increase in sales volume to 0.38 million cases from 0.21 million cases in FY23. Accordingly, revenue from IMFL grew to ₹45 crore in FY24 from ₹37 crore in FY23. However, the IMFL segment incurred losses in FY24, as marketing cost and fixed cost was higher than revenue. Based on recent performance improvement of IMFL segment, the management has articulated that the segment will be able to achieve break-even in the next two years.

Improving operational and financial performance of IMFL segment (own brand) will remain a key rating monitorable.

Input price volatility with limited pricing power

GSL uses grain as a raw material for its production. Since grains are seasonal products and its production depends on vagaries of nature, price of which may vary depending on production. Accordingly, GSL is used to store it for around two months. On the other side, considering limited pricing flexibility for its final product (as most of the liquor market is controlled by government distribution channels), the company's profitability is affected.
Post policy ambiguity of Food Corporation of India (FCI) regarding supply of rice for ethanol production in Q2FY24, the management has decided to use maize as raw material for ethanol production instead of rice in Bihar, Jharkhand, and West Bengal where maize is available in sufficient quantity and at a price of around ₹2200-2400/quintal.

Highly regulated nature of the alcohol industry
The organised alcohol industry is dominated by a few large players. The high taxation and heavy regulation also make the industry dynamics complex. Government levies duties such as excise duty, sales tax, license fee, state-level import and export duty, bottling fee, welfare levy, assessment fee, franchise fee, turnover tax, and surcharge, among others, which varies across states. 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. Industry complexity further lies in different types of distribution models followed across states such as government-controlled agencies, private distribution system, and auction. Regulations at state levels are prone to frequent changes and are sudden and uncertain. The direction or timing of regulatory changes being difficult to predict, and the industry is vulnerable to such unanticipated changes.

Liquidity: Adequate

The company has an adequate liquidity position marked by comfortable cushion in GCA of ₹136 crore against repayment obligations of ₹59 crore in FY24 and moderate cash and cash equivalents of ₹76 crore as on March 31, 2024.
The company also has a fund-based working capital sanction limit of ₹335 crore, of which around ₹95 crore remain unutilized as on May 31, 2024, which further adds cushion to the liquidity profile of the company.

The company has capex plan of ₹100 crore in FY25 entirely funded through debt. Despite capex plans, the company's liquidity profile is expected to remain comfortable to meets its debt repayment obligations of ₹63 crore in FY25.

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 environmental risk, primarily due to 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, 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 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 principles of fair, ethical and transparent governance practices over the years and lays strong emphasis on transparency, accountability, honesty, integrity and ethical behaviour.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non-financial Sector
Withdrawal Policy
Short Term Instruments

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

Promoted by Ajay Kumar Swarup of Delhi, GSL is engaged in manufacturing, marketing, and selling branded IMFL, IMIL, and bulk alcohol comprising rectified spirit and ENA and 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, 2023 (A)	March 31, 2024 (Abridged)
Total operating income	2,109.66	2,415.52
PBILDT	246.18	171.37
PAT	122.20	96.75
Overall gearing (times)	0.33	0.34
Interest coverage (times)	14.89	6.40

A: Audited. Note: these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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	-	-	-	-	335.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	March, 2029	285.15	CARE A+; Stable
Fund-based - ST-Term loan	-	-	-	September, 2023	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	55.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	335.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (04-Jul-22)	1)CARE A; Stable (07-Oct-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Oct-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	55.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Jul-23)	1)CARE A+; Stable / CARE A1+ (04-Jul-22)	1)CARE A; Stable / CARE A1 (07-Oct-21)
4	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Oct-21)
5	Fund-based - LT-Term Loan	LT	285.15	CARE A+; Stable	-	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (04-Jul-22)	1)CARE A; Stable (07-Oct-21)
6	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1+ (07-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Not applicable

Annexure-4: Complexity level of 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 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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